USE OF THESES

This copy is supplied for purposes of private study and research only. Passages from the thesis may not be copied or closely paraphrased without the written consent of the author.
Except where otherwise indicated, the work contained in this thesis is entirely my own.

Teruhiko Fukushima

April 1995
ACKNOWLEDGEMENTS

This thesis is a product of patience and encouragement. It took me many years to finish due to medical problems which compelled me to leave Canberra for Tokyo to have surgery in the middle of my PhD course. At times things looked so hopeless that I once seriously considered withdrawing from the course. Even after assuming my present position as lecturer of Australian Studies at Obirin University, medical considerations prevented me from concentrating on research and writing.

It was Professor Peter Drysdale, my supervisor, who encouraged me not to give up. Without his push, this thesis would not have come into shape. His warm encouragement and timely suggestions and advice not only saved me from desperation, they also gave me the opportunity to sit back and reconstruct my arguments. As a result, I was able to develop clearer perspectives on the postwar history of Japanese trade policy and Australia-Japan relations. So, first of all, my gratitude must go to Professor Drysdale.

I would like to thank my other advisors, Professor Stuart Harris, Mr David Sissons and Mr Ben Smith, for their useful suggestions. It was Mr Sissons who drew my attention to SCAP documents in the National Diet Library on which I depended heavily for citations. I would also like to thank Professor Alan Rix, author of the book *Coming to Terms: The Politics of Australia's Trade with Japan, 1945-57*, an important frontier work in this field. When he was in Canberra researching his book, he suggested that I look carefully into the Sterling Trade and Payments Agreements. Though he may not remember this episode, this became the main theme of my thesis.

In Tokyo, Professor Akio Watanabe's workshops proved stimulating in helping me develop my arguments. In fact, I owe a great deal to Professor Watanabe, who was formative in my accumulation of knowledge and ideas about Japan's foreign relations when I was a graduate student of the University of Tokyo. My experience in his class was of great help in writing a thesis on postwar Japanese trade strategies.

Writing a thesis and sending it, chapter by chapter, from Tokyo to Canberra could not have been achieved without the assistance of a number of people. I would like to thank the staff of the Australia-Japan Research Centre, especially Ms Margitta Acker, Ms Marilyn Popp, Ms Lynne Colley, Ms Shirley Green and Ms Minni Reis, for coordinating this process.
For a student whose first language is Japanese, thesis writing in English is a challenging task. However, the advice of my editors, Ms Billie Headon and Ms Beth Thomson, facilitated this task substantially. Ms Headon patiently read my drafts, even when their production was subject to delay. She seemed to enjoy reading my chapters even though Japanese politics and history is not her field. This boosted my confidence and determination. I am also greatly indebted to the final checking by Ms Thomson, who read through the whole thesis within a day. If any of the arguments of this thesis are fluent, a large part of the honour should go to my editors.

Financial assistance is essential for any graduate student to concentrate on academic work. I would like to thank the Australia-Japan Foundation for granting me a scholarship, which enabled me to continue my research at the ANU. My parents, Takeshi and Setsuko, generously assisted me to continue to seek an academic career, even when I had to concentrate on medical treatment and had no source of income. My sister, Toshiko, also helped me greatly during my hospitalisation. My colleagues at the School of International Studies, Obirin University, kindly took over my educational and academic responsibilities while I was in Canberra finalising my thesis.

While acknowledging the assistance I have received from so many people, of course, I assume all responsibility for any mistakes in my thesis. Finally, I would like to mention my family. My wife, Kimiko, has been patient and understanding since our marriage. She has cared for our son, Tomohiko (Tommo) while I have spent most of my spare time resting or working on my thesis. However, relaxing with my family at home after work has been the best medicine for me, and so I would like to conclude my acknowledgements with thanks to Kimiko and Tommo.
ABSTRACT

This thesis analyses Australia's role in the re-establishment of postwar Japanese trade networks from 1947 to the mid 1950s. The Sterling Trade and Payments Agreements which stipulated settlement in pounds sterling of Japan's trade with the sterling area was an important determinant of Australia-Japan trade during this period. Under this Agreement, Australia played a significant role in sustaining Japan's postwar strategy of economic self-reliance through trade promotion on a more multilateral basis.

Firstly, Australia assumed a pivotal role in shifting Japan's postwar trade strategy, under a worldwide dollar shortage, from dollar-based trade to expansion of more multilateral trade networks. The Supreme Commander for Allied Powers in Occupied Japan (SCAP) did not initially show much interest in stimulating trade with the sterling area, placing higher priority on maximisation of Japan's export sales to dollar markets. From late 1949 onwards, however, SCAP came to emphasise promotion of trade with the sterling and other non-dollar areas as a central strategy for increasing Japan's economic self-reliance and reducing its dependence on US aid. The Sterling Trade and Payments Agreements provided for multilateral settlement in soft currency of Japan's sterling trade, allowing Japan to use its sterling surplus to finance the procurement of wool and other important commodities from Australia. Australia's bilateral trade surplus provided the other sterling area countries with purchasing power to buy Japanese industrial goods. Australia emerged not only as an alternative supplier to the United States but also as the lubricant for Japan's overall sterling trade.

Secondly, among the sterling area countries, Australia took the initiative in normalising trade relations with Japan. In August 1951, the Japanese government concluded a revised Sterling Payments Agreement that deprived Japan of the right to convert its sterling surplus into dollars. Japanese government and business had been inclined towards a dollar-based trade strategy, in anticipation of extra dollar income through the US strategic aid program. When the US administration showed that it was not prepared to provide expanded economic assistance, Japan had no alternative but to achieve economic self-reliance through more multilateral trade on an unsubsidised
commercial basis. With the new Sterling Payments Agreement, which further facilitated financial settlement of Japan’s overall sterling trade, Japan confirmed its commitment to this trade strategy. In these circumstances, it became imperative for the Japanese government to regulate the reduction of trade barriers within the sterling area through diplomatic approaches. Australia responded positively to the Japanese request that it relax its discriminatory import licensing when Japan’s serious sterling shortage of 1953–54 severely affected Australia’s export sales to Japan. This paved the way for the 1957 Commerce Agreement, which made Australia the first country to conclude a formal trade agreement with Japan among the fourteen contracting parties (including several sterling area countries) maintaining discriminatory treatment of Japan even after its accession to the GATT in 1955. Success in concluding the Commerce Agreement with Australia impressed the Japanese with the feasibility of pursuing a multilateral trade strategy. The common interest in multilateral trading arrangements has hence been a consistent function of the Australia–Japan relationship in the postwar period.
CONTENTS

<table>
<thead>
<tr>
<th>Part</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration</td>
<td>ii</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>iii</td>
</tr>
<tr>
<td>Abstract</td>
<td>v</td>
</tr>
<tr>
<td>Table of Contents</td>
<td>vii</td>
</tr>
<tr>
<td>List of Tables and Figures</td>
<td>x</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>xi</td>
</tr>
<tr>
<td>1 The Significance of the Sterling Trade and Payments Agreements</td>
<td>1</td>
</tr>
<tr>
<td>in Japan's Postwar Trade Policy towards Australia</td>
<td></td>
</tr>
<tr>
<td>The Political Significance of the 1957 Commerce Agreement</td>
<td>1</td>
</tr>
<tr>
<td>Japan's Financing of the Bilateral Trade Deficit with Australia</td>
<td>6</td>
</tr>
<tr>
<td>Australia’s Role under the Sterling Trade and Payments Agreements</td>
<td>10</td>
</tr>
<tr>
<td>Debate over Postwar Japanese Trade Strategy for Economic Recovery</td>
<td>13</td>
</tr>
<tr>
<td>and Self-Reliance</td>
<td></td>
</tr>
<tr>
<td>SCAP and the Significance of Sterling Trade for Postwar Japan</td>
<td>16</td>
</tr>
<tr>
<td>Australia’s Role in Japanese Strategy for Economic Self-Reliance</td>
<td>21</td>
</tr>
<tr>
<td>2 Japan's Postwar Trade Strategy and the Role of the Sterling Trade</td>
<td>26</td>
</tr>
<tr>
<td>and Payments Agreements</td>
<td></td>
</tr>
<tr>
<td>Re-establishing Commercial Links with East Asia</td>
<td>26</td>
</tr>
<tr>
<td>Foreign Trade or Domestic Development?</td>
<td>34</td>
</tr>
<tr>
<td>Excessive Expectation concerning the US–Japan Economic Cooperation</td>
<td>40</td>
</tr>
<tr>
<td>Program</td>
<td></td>
</tr>
<tr>
<td>The Significance of Bilateral Trade and Payments Agreements</td>
<td>48</td>
</tr>
<tr>
<td>3 Japan’s Wool Procurement System during the Occupation Period</td>
<td>55</td>
</tr>
<tr>
<td>Diversion of Wool Imports in Postwar Japan</td>
<td>55</td>
</tr>
<tr>
<td>Rehabilitation Plan for the Japanese Wool Textile Industry</td>
<td>56</td>
</tr>
<tr>
<td>Japan's First Approach to Australia for Wool Procurement</td>
<td>58</td>
</tr>
<tr>
<td>Section</td>
<td>Page</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Search for a Means of Wool Procurement</td>
<td>61</td>
</tr>
<tr>
<td>Problems of Financing Wool Procurement from Australia</td>
<td>64</td>
</tr>
<tr>
<td>Alternative Sources of Raw Wool</td>
<td>71</td>
</tr>
<tr>
<td>The Coordination of Japanese Wool Procurement by Draper and Company</td>
<td>73</td>
</tr>
<tr>
<td>Wool Purchases in 1949</td>
<td>75</td>
</tr>
<tr>
<td>4 Stagnant Sterling Trade and Dollar Shortage, 1948–49</td>
<td>78</td>
</tr>
<tr>
<td>The Overall Payments Agreement and Cotton Textiles Problem</td>
<td>80</td>
</tr>
<tr>
<td>The 1948/49 Trade Plan</td>
<td>84</td>
</tr>
<tr>
<td>The Sterling Credit Problem</td>
<td>90</td>
</tr>
<tr>
<td>Contraction of Japanese Purchases from the Sterling Area</td>
<td>92</td>
</tr>
<tr>
<td>Waiver of Convertibility</td>
<td>95</td>
</tr>
<tr>
<td>SCAP Drifting Away from Sterling Trade?</td>
<td>97</td>
</tr>
<tr>
<td>Discord over the Waiver of Convertibility</td>
<td>100</td>
</tr>
<tr>
<td>Sterling Trade Arrangement at Bay</td>
<td>104</td>
</tr>
<tr>
<td>5 SCAP Increases Food Procurement in Sterling, 1949–50</td>
<td>111</td>
</tr>
<tr>
<td>SCAP’s Positive Response to the Devaluation of the Pound Sterling</td>
<td>112</td>
</tr>
<tr>
<td>SCAP’s Inflated 1949/50 Sterling Procurement Program</td>
<td>117</td>
</tr>
<tr>
<td>Decreasing US Aid and the Search for a Rice Supply from Southeast Asia</td>
<td>120</td>
</tr>
<tr>
<td>The Problem over Japan’s Accession to the International Wheat Agreement</td>
<td>124</td>
</tr>
<tr>
<td>Towards Active Food Procurement through Trade Arrangements</td>
<td>127</td>
</tr>
<tr>
<td>The Problem of SCAP’s Sterling Shortage</td>
<td>132</td>
</tr>
<tr>
<td>6 SCAP’s Quest for More Multilateral Trade with the Sterling Area:</td>
<td>141</td>
</tr>
<tr>
<td>The 1950/51 Sterling Trade Negotiations</td>
<td></td>
</tr>
<tr>
<td>The Trade Expansion Plan and the Promotion of Non-Essential Japanese</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td></td>
</tr>
<tr>
<td>Proposal for the Application of GATT Principles</td>
<td></td>
</tr>
<tr>
<td>SCAP and Most-Favoured-Nation Treatment for Japan</td>
<td></td>
</tr>
<tr>
<td>SCAP’s Right to Dispose Freely of Sterling Funds</td>
<td></td>
</tr>
<tr>
<td>Different Approaches to Sterling Trade within the SCAP Bureaucracy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SCAP's New Liberal Import Financing Policy

7 Japan at the Crossroads in Postwar Trade Development: The New Sterling Payments Agreement of 1951

- The British Proposal for Deletion of the Dollar Convertibility Clause
- SCAP’s Approach to the Dollar Convertibility Clause
- The Japanese Government’s Approach to the Dollar Convertibility Clause
- The US-Japan Economic Cooperation Program
- Negotiations over Prevention of a Sterling Accumulation
- The Hong Kong Question and Political Settlement of the Negotiations
- Japan’s Approach to the Sterling Payments Negotiations

8 The Japanese Handling of the Sterling Surplus, 1951–52

- The Implications of the 1951 Sterling Payments Agreement
- MITI and MFA Urge an Expansion of Sterling Trade
- The Rejection of the FECB Proposal for Export Finance Restraint Measures
- External Opposition to Restrictive Measures on Sterling Exports
- Japanese Inclines towards Expanding Sterling Trade

9 Economic Diplomacy: Japanese Response to the Sterling Shortage, 1953–54

- Japan’s Slow Response to the Sterling Shortage Problem
- Financial Restraints to Overcome the Crisis in the Balance of Payments
- The Significance of Economic Diplomacy in Placing Trade on a More Multilateral Basis
- Japanese Economic Diplomacy towards Australia
- Curtailment of Japanese Purchases of Australian Wool

10 The Role of Australia in the Evolution of the Postwar Japanese Trade Strategy and the Commerce Agreement of 1957

Bibliography
List of Tables

1.1 Japan’s Trade with Australia: 1945-67 7
4.1 Estimates of Wool Trade from the Sterling Participants to Japan, 1 July 1948–30 June 1949 86
4.2 Sterling Area–Japan Trade Plan, 1 July 1948–30 June 1949 89
5.1 US Budget of the Appropriated Funds for Japan 121
5.2 Japan’s Trade and Payments Agreements Concluded by SCAP, 1948-50 128
5.3 Japan’s Exports and Imports by Trading Area, 1946–49 130
5.4 Japan’s Monthly Exports and Imports with the Sterling Area in 1950 136
6.1 Japan’s Wool Imports, January 1950–March 1951 171
8.1 Japan’s Export-Import Trade with the Sterling Area, January–March 1951 to April–June 1952 214
8.2 Japan’s Foreign Currency Balance, June 1950–June 1952 215
9.1 Japan’s Export-Import Trade with the Sterling Area: July–September 1952 to October–December 1954 229
9.2 Japan’s Foreign Currency Balance: September 1951–December 1953 229
9.3 Japan’s Trade with the Sterling Area Countries, 1953 245

List of Figures

7.1 United Kingdom’s Exchange Control Regulations: Outline of Permissible Transfers, January 1949 180
ABBREVIATIONS

AM: Australian Mission in Tokyo
CCC: Commodity Credit Corporation, United States
Crosec: Secretary of State for Commonwealth Relations, British Government
DA: Department of the Army, US Administration
DCA: Department of Commerce and Agriculture, Australian Government
DS: Diplomatic Section, SCAP
EROA: Economic Rehabilitation in Occupied Area, US aid
ESB: Economic Stabilisation Board (*Keizai Antei Hombu*)
ESS: Economic and Scientific Section, SCAP
FECB: Foreign Exchange Control Board (*Gaikoku Kawase Kanri Iinkai*)
FO: Foreign Office, British Government
GARIOA: Government Appropriation for Relief in Occupied Areas, US aid
IEFC: International Emergency Food Committee
IMF: International Monetary Fund
IWA: International Wheat Agreement
MAF: Ministry of Agriculture and Forestry (*Norinsho*)
MFA: Ministry of Foreign Affairs (*Gaimusho*)
MITI: Ministry of International Trade and Industry (*Tsushosangyosho*)
MOF: Ministry of Finance (*Okurasho*)
MSA: Mutual Security Act, United States
OJEIRF: Occupied Japan Export-Import Revolving Fund
SCAP: Supreme Commander for Allied Powers in Occupied Japan
UKLM: United Kingdom Liaison Mission in Tokyo
The Significance of the Sterling Trade and Payments Agreements in Japan’s Postwar Trade Policy towards Australia

The Commerce Agreement of 1957 was a significant breakthrough in postwar Australia-Japan trade relations. By stipulating the exchange of most-favoured-nation treatment and the application of non-discriminatory treatment in trade, it established an institutional framework for the development of bilateral trade under which Japan became Australia’s largest export market especially for mineral resources from the mid 1960s onwards. It secured the development of this significant trade relationship within the framework of the multilateral trading system established under the GATT. One of the architects of the Agreement as Secretary of the Department of Trade in the Australian government, Sir John Crawford, wrote that, ‘without the agreement of 1957 the course of mutual trade expansion would have been both vastly more difficult and a good deal slower’.\(^1\) The Japanese chief negotiator, Nobuhiko Ushiba, described the Agreement as ‘epoch-making’ in that Australia agreed to place Japanese trade on an equal basis.\(^2\)

THE POLITICAL SIGNIFICANCE OF THE 1957 COMMERCE AGREEMENT

The Commerce Agreement had considerable political significance. The Australian government moved to open its domestic market for Japanese industrial goods in exchange for improved access to the Japanese market for primary commodities. In an attempt to give more favourable treatment to the former enemy, the Australian government ran the risk of bitter domestic opposition. There remained widespread wartime antipathy and thereby strong hesitation to resume normal economic or political relations with Japan among the

---

Australian public. The prewar experience reminded Australian consumers of the influx of cheap, low-quality Japanese textile goods which aroused among the Australian manufacturers and trade unions enormous anxiety about exposing the Australian domestic market to Japanese industries which were rapidly restoring their strong competitiveness centred on labour-intensive light industries despite heavy damage incurred during the Pacific War. In pursuit of a promising outlet for agricultural products, however, Canberra’s ‘political’ decision to conclude a formal trade agreement with Japan promoted the establishment of closer trade relations between the two mutually complementary economies.³

Australia’s move was in line with the trade strategy which it developed after the end of World War II. Although Australia was an original contracting party to the General Agreements on Tariffs and Trade (GATT), the government found that the new international trade organisation did not favour primary producers such as Australia because the GATT principles of non-discriminatory treatment and elimination of trade barriers excepted agricultural trade. The Australian government, therefore, tried to pursue its commercial interests in bilateral negotiations by obtaining improved market access for its agricultural exports in exchange for reduction of its domestic industrial protection. In 1956 Australia concluded a Trade Agreement with the United Kingdom which allowed Australia to reduce the margins of preferential tariffs as stipulated in the 1932 Ottawa Agreement, to make Australia a more attractive trading nation for the countries outside the British Commonwealth such as Japan. From a commercial viewpoint, it was in Australia’s interest to approach Japan also to liberalise bilateral trade in order to maintain and develop the Japanese domestic market which seemed to have the potential to become a huge outlet for Australian primary products, as long as Australia could retain the right to check excessive inflows of Japanese goods whenever its less competitive domestic industry was threatened. These Australian policy considerations which constituted the background to the 1957 Commerce Agreement with Japan have already been well documented in Crawford’s work. Rix has explained in detail the political process whereby the Australian policy makers took

the initiative towards expansion of Japanese trade without antagonising potentially hostile
domestic interests.4

The Agreement also had political significance for Japan. It drove an important wedge
into the system of international trade discrimination against Japan. Ushiba emphasised the
political importance of Australia's commitment to most-favoured-nation treatment for
Japanese trade, as Australia became the first country to agree to give concessions among
the GATT contracting parties which retained the right to discriminate against Japan under
Article XXXV after Japan joined the GATT in 1955.5 Moreover, the Commerce
Agreement with Australia was the fourth formal trade agreement concluded by the postwar
Japanese government, following those with the United States, Canada and Norway.

One of the most important issues in Japan's postwar diplomacy was the restoration of
international status through membership of international economic organisations such as the
International Monetary Fund (IMF) and the GATT. In particular, accession to the GATT
allowed Japan non-discriminatory most-favoured-nation treatment which could help to
promote its export trade. Japan had to face enormous difficulties in achieving these
objectives.6 Four months after the restoration of independence in April 1952, Japan was
admitted to the IMF. In 1955, Japan achieved the long-awaited goal of membership in the
GATT. In granting accession to Japan, however, the fourteen GATT contracting parties
including the United Kingdom, Australia, New Zealand, South Africa, France and the
Benelux Countries, refused to enter into normal GATT relations with Japan by retaining the
right to discriminate specifically against Japan under GATT Article XXXV. Despite
Japan's formal membership in the GATT, these parties were allowed to maintain
discriminatory import restrictions selectively against Japanese goods.

Retention of GATT Article XXXV by a dozen of the contracting parties had an
adverse effect on the promotion of Japan's exports of competitive light industrial goods into
advanced markets and thus caused balance of payments problems. Furthermore, the other

4 Alan Rix, Coming to Terms: The Politics of Australia's Trade with Japan, 1945-57, Sydney, Allen &
Unwin, 1986. Especially his Chapter 6 discusses the problems of the Australian government in
accommodating Japan in the postwar international trading system, while retaining its right to impose
selective restrictions on imports from Japan to maintain domestic protection.
5 Ushiba and Hara, 1979, p.241.
6 For an outline of the problem of Japan's accession to the GATT, see Tatsuo Akaneya, Nihon no Gatto
Kanyu Mondai [Japan's membership into the GATT], Tokyo Daigaku Shuppankai, 1992.
war-defeated nations, West Germany and Italy, had been admitted to the GATT much earlier and there were only a few cases in which Article XXXV was retained. Italy became a GATT contracting party in 1949 and West Germany in 1951. In 1948, India and Pakistan retained Article XXXV against South Africa in protest against its racial discrimination policy. Cuba adopted a policy of applying Article XXXV against any new contracting party. It was evident that some Western countries were still concerned that Japan would exploit its competitive edge in the marketing of its light industrial goods and might repeat its prewar export drive and unfair trade practices. If Japan was to seek economic development through trade promotion and restoration of its international status by participating in the international trade forum, the government had to focus on removal of retention of rights under Article XXXV.

In September 1957, soon after the signing of the Commerce Agreement, the Japanese Ministry of Foreign Affairs published the first issue of Waga Gaiko no Kinkyo, the so-called, Gaiko Seisho [Diplomatic Blue Paper]. Gaiko Seisho indicated three important objectives in Japanese foreign relations, including economic diplomacy which aimed at the 'peaceful advance of Japanese economic power overseas'. While the 1957 issue of the Blue Paper did not give a clear definition of economic diplomacy, the 1958 issue was more explicit pointing out that the international trade barriers for the purposes of exchange controls and domestic industrial protection and trade discrimination against Japan were the targets of economic diplomacy. The 1962 issue went so far as to describe the removal of trade discrimination against Japan as the ‘most important point in economic diplomacy of our country whose mission is export promotion’.

Yamamoto argues that economic diplomacy was an inevitable priority in Japan’s postwar foreign relations:

The emphasis on economic diplomacy has a long history which goes back to the restoration of Japan’s independence by the San Francisco Peace treaty and the resumption of diplomacy. The most imminent problem was how an
independent Japan could find an opportunity for its survival in the world. Moreover, despite independence, there was no room at all for Japan to take its own diplomatic initiative. Under these conditions Japan had no alternative but to centre its diplomatic activities on restoration of its status in international economic society through conclusion of treaties of commerce and navigation and entry into the international economic organisations within the political framework established by the San Francisco Treaty. 11

Thus the removal of the systematic trade discrimination against Japan was the most challenging task in postwar Japanese diplomacy.

In view of this situation, the Commerce Agreement with Australia had significant political meaning for the Japanese government. The exchange of most-favoured-nation treatment in trade virtually put Australia-Japan trade on a normal GATT basis except in the case of an emergency. Australia's commitment in the Agreement to review retention of Article XXXV within three years put considerable pressure on the other parties which continued to discriminate against Japan, particularly those of the British Commonwealth of Nations. The significance of the political effect of the Agreement was such that the Japanese negotiators showed preparedness to make compromises in the settlement of specific bilateral trade issues raised by Australia. For example, Japan had hesitated to provide assurance on maintaining the existing duty-free entry for wool for three years until Australia revealed its readiness for eventual removal of retention of Article XXXV by promising its review within three years. 12

Apart from its political significance, the meaning of the Commerce Agreement in the evolution of the postwar Japanese trade strategy has not been fully examined. In fact, little research has so far been undertaken on the specific trade policy considerations which drove the Japanese government into negotiations for liberalisation of bilateral trade with Australia. 13 The significance of the diplomatic issue of trade discrimination under the GATT suggests that Japanese trade policy had focused on export promotion through the

12 Toshimichi Kajiki, 'Nichi-Go Tsusho Kosho wo Kaerimite' [Japan-Australia trade negotiations], *Boeki to Kanzei*, vol.5, no.8, August 1957, pp.36-37; Kan'ichiro Akiyama, 'Nichi-Go Tsusho Kyotei no Seiritsu to Nichi-Go Boeki' [The conclusion of the Japan-Australia Commerce Agreement and Japan-Australia trade], *Kaigai Keizai Jijo*, no.272, vol.7, no.13, First half of July 1957, p.398.
13 For Japan's accession to GATT, see Akaneya, 1992. For a descriptive history of Japan-Australia trade, see Katsushiro Narita, *Nichi-Go Tsusho Gaikoshi* [The history of Japan-Australia trade and diplomacy], Shin Hyoron, 1971.
elimination of trade barriers in a desperate attempt to achieve economic recovery and
growth. In this context, the Commerce Agreement with Australia would appear to be one
of the positive outcomes of this approach. However, this observation does not begin to
explain Australia's special position in postwar Japanese trade strategy. By the mid 1950s,
Australia had become one of the largest suppliers to Japan, second only to the United
States. Although less significant as an export market, Australia recorded the fourth largest
intake of Japanese goods in 1951. Despite relatively large bilateral commercial exchanges
which had developed since the early postwar period, Australia's position in Japanese
commercial affairs has not been fully explained nor appreciated by the Japanese. In order to
understand the real significance of the Commerce Agreement, it is necessary to clarify the
role of the large volume of two-way trade with Australia in the context of the evolution of
the postwar Japanese strategy for economic recovery and growth.

JAPAN'S FINANCING OF THE BILATERAL TRADE DEFICIT WITH
AUSTRALIA

A key to the Japanese policy on Australian trade was Japan's huge trade deficit with
Australia. As Table 1 shows, Japan's imports from Australia were usually larger than its
exports during the first decade of the postwar period with the exception of 1946–47. While
Japan tended to record deficits in trade with Australia in the prewar days, the margin of
these deficits widened in the postwar period. In 1953, the trade imbalance even reached a
ratio of nineteen to one in Australia's favour. While Australia's tight import restrictions
aggravated Japan's unfavourable balance, a significant factor was the increased dependence
of the postwar Japanese economy on imports from Australia. The loss of Manchuria
meant that Japan had no choice but to purchase wool from Australia in order to resume

---

14 In fact, Kawanami, former Japanese official of the Ministry of Foreign Affairs, recalls that in explaining
the content of the draft Commerce Agreement for obtaining approval from the other ministries he had
insisted that at any rate the Agreement would contribute towards an increase in Japan's exports to
Australia. (Interview with Masayoshi Kawanami, 30 August 1983) Kawanami was Deputy Chief of the
Fourth Division, the Economic Bureau, the Ministry of Foreign Affairs during the negotiations for the
Commerce Agreement with Australia. He was in charge of drafting the Agreement and sending
instructions for the Japanese negotiators in Canberra led by Nobuhiko Ushiba.

15 In comparison with the prewar period, Japan's dependence on foreign trade decreased as a whole in the
postwar period due to the decline in purchases of raw materials and foodstuffs from its former colonies
and traditional suppliers such as China, Korea and Taiwan. G.C. Allen, Japan as a Market and Source
Table 1.1  Japan’s Trade with Australia, 1945–1967

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports from Australia:(A) (million yen)</th>
<th>Exports to Australia:(B) (million yen)</th>
<th>A/B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934</td>
<td>198</td>
<td>64</td>
<td>3.1</td>
</tr>
<tr>
<td>1935</td>
<td>235</td>
<td>75</td>
<td>3.1</td>
</tr>
<tr>
<td>1936</td>
<td>182</td>
<td>69</td>
<td>2.6</td>
</tr>
<tr>
<td>1940</td>
<td>94</td>
<td>73</td>
<td>1.3</td>
</tr>
<tr>
<td>1945</td>
<td>0</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>1946</td>
<td>0</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>34</td>
<td>198</td>
<td>0.2</td>
</tr>
<tr>
<td>1948</td>
<td>638</td>
<td>596</td>
<td>1.1</td>
</tr>
<tr>
<td>1949</td>
<td>7,503</td>
<td>5,525</td>
<td>1.4</td>
</tr>
<tr>
<td>1950</td>
<td>27,689</td>
<td>8,412</td>
<td>3.3</td>
</tr>
<tr>
<td>1951</td>
<td>50,122</td>
<td>32,425</td>
<td>1.5</td>
</tr>
<tr>
<td>1952</td>
<td>47,738</td>
<td>9,986</td>
<td>4.8</td>
</tr>
<tr>
<td>1953</td>
<td>62,037</td>
<td>3,249</td>
<td>19.1</td>
</tr>
<tr>
<td>1954</td>
<td>42,160</td>
<td>10,155</td>
<td>4.2</td>
</tr>
<tr>
<td>1955</td>
<td>63,974</td>
<td>19,842</td>
<td>3.2</td>
</tr>
<tr>
<td>1956</td>
<td>89,436</td>
<td>11,114</td>
<td>8.0</td>
</tr>
<tr>
<td>1957</td>
<td>130,608</td>
<td>15,165</td>
<td>8.6</td>
</tr>
<tr>
<td>1958</td>
<td>81,202</td>
<td>22,518</td>
<td>3.6</td>
</tr>
<tr>
<td>1959</td>
<td>105,120</td>
<td>28,204</td>
<td>3.7</td>
</tr>
<tr>
<td>1960</td>
<td>123,714</td>
<td>51,884</td>
<td>2.4</td>
</tr>
<tr>
<td>1961</td>
<td>162,641</td>
<td>36,090</td>
<td>4.5</td>
</tr>
<tr>
<td>1962</td>
<td>156,791</td>
<td>49,860</td>
<td>3.1</td>
</tr>
<tr>
<td>1963</td>
<td>185,168</td>
<td>56,906</td>
<td>3.3</td>
</tr>
<tr>
<td>1964</td>
<td>209,446</td>
<td>84,195</td>
<td>2.5</td>
</tr>
<tr>
<td>1965</td>
<td>198,742</td>
<td>112,779</td>
<td>1.8</td>
</tr>
<tr>
<td>1966</td>
<td>244,669</td>
<td>107,164</td>
<td>2.3</td>
</tr>
<tr>
<td>1967</td>
<td>285,266</td>
<td>129,166</td>
<td>2.2</td>
</tr>
</tbody>
</table>


operation of the woollen textile industry. The postwar food shortage also made it imperative for Japan to increase dependence on overseas wheat suppliers such as the United States and Australia.16

In the 1950s, improvement of the balance of payments position through export promotion became an important issue in the management of the Japanese economy. In general, Japan enjoyed favourable balances on current account in the first decade of the

The postwar period with the exception of 1946, 1953 and 1954. This was due to US aid and special procurement during the Korean War which offset the perennial deficits in the trade account. As US aid was withdrawn and the Korean War Boom waned, Japan was faced with the serious problem of ‘how to lift the ceiling of the balance of payments’. After buoyant domestic investment brought about high economic growth during the early 1950s and in 1956, the rapid increase in imports soon resulted in serious deficits in the trade account. In order to achieve the ‘national objective’ of maintaining a high level of investment and economic growth, it became imperative for the Japanese economy to finance increasing overseas purchases by the promotion of exports. Thus economic diplomacy had a significant role to play in the expansion of Japanese export markets. In view of the huge bilateral trade deficits and Australia’s tight import controls on Japanese goods during the early 1950s, it was no wonder that the Japanese officials emphasised the need to increase exports through reduction of trade barriers in Australian markets in the bilateral trade negotiations. Even after the conclusion of the Commerce Agreement, Japanese industrial circles continued to point out the problem of lopsided trade until Australia finally and formally abrogated its right to invoke GATT Article XXXV in the revised Commerce Agreement of 1963.

If improvement of the bilateral trade imbalance was one of the most significant objectives in postwar Japan’s diplomatic approach towards Australia, then the question arises as to why Japan let the bilateral trade deficit grow as it did. Before the early 1960s, when Japan accepted its international obligations under the GATT and the IMF to liberalise

---

17 Ibid., p.80.
18 The US aid through the Government Appropriation for Relief in Occupied Area (GARIOA) funds was calculated as government donation in current account for statistical reasons. Akira Inuta, *Kokusai Kin’yu, Boeki* [International finance and trade], Okurasho Zaiseishishitsu, ed., *Showa Zaiseishi: Shusen kara Kowa made* [The history of finance during the Showa period: From the end of the Pacific War to the peace settlement], vol.15, Toyo Keizai Shimposha, 1976, p.607.
import trade and renounce import restrictions for the purpose of safeguarding the balance of payments, the Japanese government had a wide range of measures at its disposal to check the inflow of Australian products. If it was seriously concerned about deterioration of the balance of payments, Tokyo could have corrected its huge bilateral trade deficit by imposing strong restraints on purchases from Australia, which were not indispensable. Food purchases from Australia could have been minimised if Japan had concentrated its domestic resources on increased rice production. As a supplier of raw materials for industrial production, Australia was less significant than the United States. While Japan also accumulated a huge trade deficit with the US in the postwar period, the main import commodity from the US was raw cotton which played a far more important role in the Japanese economy than Australian wool since Japan could not expect to earn significant income from the export of woollen manufactures.

After the retreat from the Chinese continent and the subsequent embargo on trade with the Communist countries, Japan had lost its traditional export markets for woollen products such as China, Manchuria and Korea so that woollen goods were manufactured mainly for domestic consumption. The future demand for woollen textiles also looked gloomy due to rapid technological advances in the production of artificial fibre. There developed an argument within Japanese domestic circles that in the light of the need to improve the balance of payments, purchases of raw wool should be curtailed to encourage the production of artificial fibre which was less dependent on the overseas supply of raw materials. Cotton textiles made from US raw cotton were one of Japan’s largest export items before the 1960s. There was every reason, therefore, for Japan to maintain purchases of US raw cotton, while reducing purchases of Australian wool.

While the huge deficit in US trade could be offset through US aid and the Korean War special procurement up until the early 1950s, if Japan wanted to pursue economic self-reliance without dependence on this extra dollar income, it needed to concentrate its

---

21 The ratio of exports in the total production of Japanese woollen piece goods was 13.3% on average over the period 1934-36, while the highest figure recorded between 1946 and 1955 was 9.0% in 1955 with an annual average of 4.9%. Tsushosangyosho Tsushokyoku Tsusho Chosaka, 1956, pp.148-149.


23 In this thesis, the term ‘economic self-reliance’ will be used to correspond with the Japanese term keizai jiritu, which can be defined as the situation where Japan is able to sustain economic growth without incurring the deterioration of the balance of payments position. While the SCAP and Japanese officials often used ‘economic self-support’ for keizai jiritu in English documents, I believe the term ‘self-
domestic resources on production of exportable goods. This could have earned dollars to pay for essential imports from the US. Although Japan could have financed its imports from the US by its export income from other areas such as Southeast Asia during the prewar period, suspension of dollar convertibility throughout the world during the postwar period annulled this method of settlement. Hence, it would have been in Japan’s interest to make optimum use of its limited foreign currency reserves by giving first priority to importing raw materials for manufactured goods which were competitive in the tough dollar markets while confining other import trade to suppliers which were prepared to buy an adequate volume of Japanese goods. There seems to have been little room for Japan to maintain an unfavourable trade balance through the importation of products which would not generate export income. Despite this, Japan still continued to buy from Australia and accumulate unfavourable bilateral trade deficits. Why did Japan continue to run these deficits with Australia and how were they financed?

AUSTRALIA’S ROLE UNDER THE STERLING TRADE AND PAYMENTS AGREEMENTS

After the conclusion of the Interim Sterling Payments Agreement in November 1947 and the subsequent Overall Sterling Payments Agreement in May 1948 between the Supreme Commander for Allied Powers in Occupied Japan (SCAP) and the representatives of the United Kingdom Mission in Tokyo, postwar Japanese trade with the sterling area countries was mainly settled by sterling cash. Australia and New Zealand became parties to the Interim Agreement, and the Overall Agreement was applied to trade between Japan and all the sterling area countries except Hong Kong. In August 1951 the new Sterling Payments Agreement was concluded by the Japanese government and the United Kingdom delegates to include Hong Kong and to further facilitate Japan’s sterling trade. Under these Sterling Payments Agreements, Japan’s overall sterling balance was a significant determinant of trade with Australia up until the mid 1950s.

reliance’ is clearer.

25 Both the Interim and the Overall Payments Agreements were concluded through exchange of memoranda. The memorandum for the Interim Agreement was entitled ‘Interim Agreement for Financing Private Trade with Japan’, which hereafter will be described as the ‘Interim Payments Agreement’. The memorandum for the Overall Agreement was entitled ‘Payments Arrangements for
The Overall Payments Agreement was expected to play a role in expanding Japanese sterling trade. The worldwide dollar shortage in the early postwar period encouraged each country to balance its trade on a country-by-country basis to conserve extremely limited dollar balances. The need to settle dollar transactions in cash on the spot hampered trade expansion. Sterling area countries had been good export markets for Japanese light industrial goods since the 1930s, and the inability of the United Kingdom to supply to these markets in the postwar period offered opportunities for Japan to export manufactured goods to the sterling area. Since the Overall Payments Agreement provided for sterling settlement, the foreign exchange control authorities of these countries felt freer in granting import licences for Japanese goods with less concern about the need to use the dollar. This resulted in the accumulation of a certain amount of sterling by Japan. Under circumstances where free convertibility of sterling into dollars had been suspended, accumulated sterling could only be used in the sterling area. Since the Agreement stipulated a so-called dollar convertibility clause which gave SCAP the right to convert sterling funds in its account into dollars every six months, the sterling countries restrained purchases from Japan for fear of a dollar drain should SCAP exercise this right rigidly. In order to balance Japan’s overall sterling trade at a maximum level, it was necessary for Japan to spend the surplus accrued from sales to each sterling area country on purchases from suppliers in the same area.

Australia had the largest capacity to supply Japan with imports among the sterling area countries and was the main absorber of Japanese sterling funds. Japan’s deficits in bilateral transactions with Australia played a significant role in providing the other sterling countries with purchasing power for Japanese goods and expanding Japan’s trade with the whole sterling area. In addition, Australia’s capacity to supply foodstuffs contributed towards saving dollar expenditure as a substitute source for US wheat.26

---

26 Cohen, 1958, p.142
purchases from Australia had dwindled, Japan would have accumulated excessive amounts of sterling which might eventually have had to be converted into dollars, and the sterling area countries would have been forced to restrain imports from Japan to avoid the risk of losing their dollars. Then overall Japanese sterling trade would have struck a balance at a low level. This would have resulted in the shrinkage of the overall level of Japanese trade and industrial production for export.

Australia also played an important part in raising the level of Japanese sterling trade when stagnation of British purchases of Japanese goods affected Japan’s procurement from the sterling area. As the main supplier to Japan among the sterling countries, Australia was most sensitive to curtailment of Japanese sterling trade. It was in Australia’s interest to let Japan accumulate an adequate amount of sterling by giving Japanese goods the opportunity to compete more freely in sterling area markets. Thus, among the sterling area countries which tended to impose tight controls on Japanese imports in defence of the value of the pound sterling as well as for reasons of domestic industrial protection, Australia became most responsive to Japanese diplomatic approaches in pursuit of relaxation of import restrictions in the sterling area where tight import controls severely affected Japan’s export earnings. Apart from the political objectives of economic diplomacy to normalise Japan’s status within international trade organisations, the successful conclusion of the 1957 Commerce Agreement should therefore be examined in the context of the expansion of Japan’s overall sterling trade in the postwar period.

This thesis analyses Japan’s trade policy interests leading up to the Commerce Agreement with Australia by focusing on Australia’s significance in the overall expansion of Japanese sterling trade. In order to clarify Australia’s position in the Japanese trade strategy, it is necessary to begin with a discussion of the significance of sterling trade in the process whereby the Japanese consolidated their postwar strategy for economic recovery and self-reliance through trade promotion on a more multilateral basis, overcoming the inclination towards restoration of the traditional Chinese commercial links, or development of domestic resources, or dependence on dollar-based trade through US economic assistance.

27 India was more positive in leaving their market open for Japanese capital goods for their own economic development. Sakito Sato, ‘Kyotei Boeki kara Mita Pondo Boeki’ [Sterling trade through bilateral arrangements], Yushutsu Menshifu Geppo, vol.3, no.9, September 1953, p.2.
DEBATE OVER POSTWAR JAPANESE TRADE STRATEGY FOR ECONOMIC RECOVERY AND SELF-RELIANCE

Chapter 2 examines the policy debate over the restoration of Japanese trade networks destroyed during the Pacific War. In the early postwar period, Japanese government officials aimed at the recovery of Japanese trade centred on industrial exports to Asia. However, Japan was forced to change these plans when the deterioration of the Cold War in Asia made it clear that Japan could no longer count on the restoration of traditional import and export trade with the Chinese continent at the end of the 1940s.

The breakdown of the original trade strategy based on the traditional Chinese networks deprived the Japanese of their confidence in achieving economic recovery and self-reliance centred on trade promotion on a commercial basis. As international circumstances in the Cold War prevented Japan from restoring its traditional commercial links, the worldwide dollar shortage forced many trading nations to maintain tight exchange controls on overseas trade, and US aid for Japanese recovery was curtailed, there emerged two types of strategy to overcome Japan’s predicament.

The first proposal advocated that Japan should concentrate on development of its domestic resources to achieve economic recovery, since it could not count on benefits from trade expansion, given the difficult international circumstances. This view was mainly advocated by the intellectuals, but it was also in line with the economic recovery programs for government-led domestic development centred on the heavy and chemical industries, as visualised by the Economic Stabilisation Board during the early postwar period. This strategy was rejected by the government under the leadership of Prime Minister Shigeru Yoshida who preferred market-oriented economic management to government intervention and also by Joseph Dodge who as SCAP’s advisor instructed the Japanese government to implement austere economic policies to achieve economic self-reliance.

The second proposal focused on making full use of extra dollar supply through the US strategic aid program for economic development of Southeast Asia. Although the Korean War Boom provided Japan with extra dollar income through special procurements, it was evident that Japan could not count on such ‘windfall profits’ in the medium to long term. Nor could it rely on US appropriated funds which were to be curtailed with the Peace Settlement in sight. With Chinese links broken, Japan increased its dependence on supply of
commodities from the dollar area. Although it did need to earn dollars through export promotion on a normal commercial basis, its heavy industrial sectors had not been strong enough to compete with the producers of the other advanced countries. This situation led the Japanese to seek every possible source of dollar income and depend heavily on the United States.

Hence, when there emerged a proposal for a US-Japan Economic Cooperation Program in late 1950, Japanese government and business circles developed a strong interest in the prospect of integrating Southeast Asian markets with Japanese industrial production. The Cooperation Program aimed to utilise the US strategic aid to provide the non-Communist Southeast Asian countries with purchasing power for Japanese capital goods for their economic development. If the Program had materialised, Japan could have expected to obtain the double advantage of a source of a stable dollar income and special commercial networks which would substitute for the traditional Chinese continental markets, subsidised by the US aid for strategic reasons. These benefits seemed so attractive that the Japanese had excessive expectations for implementation of the Program, which proved fruitless, as the US administration was not in the event prepared to provide additional aid for Japan. The Japanese over-reaction to the proposal for handy dollar income reflected a lack of confidence in achievement of economic self-reliance under tough international trading circumstances.

Deprived of this handy source of dollar income, Japan had no alternative but to make its own self-help efforts for industrial rationalisation and export promotion on an unsubsidised commercial basis, as prescribed by the Dodge Line. Since Japan’s industrial sectors were yet to strengthen their competitive edge, it had to develop its exports to any market where demand for industrial goods was active, without excessive stress on dollar earnings. This situation also compelled Japan to divert its procurement of raw materials and foodstuffs away from the dollar area, in order to save its scarce funds. Under the worldwide dollar shortage, the key to trade expansion had to be sought in bilateral trade and payments agreements. In fact, William Logan, who visited Japan as SCAP’s advisor following the introduction of the Dodge Line, proposed expansion of networks of trade and payments agreements with non-dollar area countries, as a strategy for trade promotion under austere policies for economic self-reliance which forced Japanese industrial sectors to
abandon their reliance on government subsidies and to compete in overseas markets on a commercial basis. Logan also emphasised promotion of raw materials and foodstuffs imports rather than strict balancing of bilateral trade in the operation of these bilateral trade and payments agreements, in order to mitigate the restrictive effects of bilateral agreements under which both parties tended to restrict imports to maintain a strict trade balance for fear of a dollar drain.

The core of this idea was for economic self-reliance through trade promotion on a more multilateral basis, in that it aimed to expand Japan’s trade networks without undue emphasis on dollar earnings or the establishment of special commercial links with any specific region. If Japan was to finance its overseas purchases of raw materials and foodstuffs, it would have to make its own self-help effort for export promotion, as illustrated in the implementation of the Dodge Line. If Japan was to maintain active export performance to sustain its industrial operation, it would have to promote sales not only to the dollar area but also to the non-dollar area, and in turn it would have to diversify its sources of commodity supply from the dollar area to provide the purchasing power to non-dollar customers. This strategy was gradually consolidated within the Japanese government during the postwar period and became firmly established, as Japan confirmed its commitment to participation in the liberal international trade institution under the GATT. Although the Japanese occasionally showed an inclination to be enticed by the prospect of Chinese trade, domestic development and extra dollar income through US aid, it was this strategy that laid the foundation for Japan’s rapid economic growth during the 1960s.

The sterling area played the most important role in the evolution of this strategy for postwar trade promotion on a more multilateral basis, particularly under the worldwide dollar shortage. Firstly, despite the provision for dollar convertibility of Japan’s sterling surplus, the Overall Payments Agreement stipulated trade settlement through soft-currency in sterling, to minimise the rigidity of the normal dollar based open account transactions. Secondly, the Sterling Trade Arrangements were devices to promote multilateral transactions in that they aimed at balancing trade at the highest possible level by seeking balance with several sterling area countries together including Australia as one trading party with Japan. Thus each sterling participant in the Trade Arrangements did not have to worry about strict balancing of its own bilateral transactions with Japan. Thirdly, the sterling area
was important as Japan’s ‘natural’ export market because of strong demand for Japanese imports despite its restrictive policies deriving from concern about a dollar drain. Furthermore, the sterling area countries in Asia such as India, Pakistan and the British Malay Straits Colonies proved good customers of Japan’s heavy chemical goods.

It was Australia that played a pivotal role as the main non-dollar commodity supplier and, more significantly, as the circulator of purchasing power between Japan and the other sterling area countries, in absorbing Japan’s sterling surplus through its huge capacity to supply raw materials and foodstuffs. The important role of the Sterling Payments Agreements and Australia in sustaining a trade strategy on a more multilateral basis was not fully appreciated by the occupation authority nor by the Japanese government at the outset. They gradually came to recognise its significance, as Japan’s sterling trade increased its weight under the Sterling Trade and Payments Agreements, and on the other hand, the feasibility of the other strategies became doubtful. Hence, the remaining chapters of this thesis will trace the process whereby SCAP, and later the Japanese government, strengthened their commitment to expansion of sterling trade, focusing on the operations of the Sterling Payments Agreements up until 1954 when Australia made an important decision to open its market substantially for Japanese goods. The intention is to clarify Australia’s important role in sustaining Japan’s postwar strategy for trade promotion on a more multilateral basis. In this context, the real implication of the 1957 Commerce Agreement can be understood as central to the evolution of the postwar Japanese trade strategy.

SCAP AND THE SIGNIFICANCE OF STERLING TRADE FOR POSTWAR JAPAN

Chapter 3 discusses Australia-Japan trade in the early postwar period, before the expansion of Japanese sterling trade, focusing on Japan’s procurement of Australian wool. Since Japan had tended to have an unfavourable balance in Australian trade since the prewar days, resumption of imports from Australia rested on payments arrangements. Before the Overall Payments Agreement, Japan had few ways of financing purchases from Australia. Enjoying the benefits of a postwar sellers’ market, Australian did not have any particular need to grant special credit to its former enemy. It was also out of the question for the Japanese occupation authority to allocate to purchases from Australia its extremely limited dollar
funds appropriated from US aid for urgent relief in a war damaged nation. Imports of Australian wool virtually ceased and the shortage of raw wool seriously hampered the activities of the Japanese woollen mills in mid 1947.

In order to overcome these difficulties, SCAP adopted an anomalous system of wool procurement. It commissioned an American commercial firm to purchase raw wool in the most economical way it could from all over the world. Since the firm was experienced in dealing in South American wool, postwar Japanese wool imports were diverted to South America and South Africa, and Australian wool could not regain its prewar dominance in the Japanese market despite the fact that the Japanese woollen interests were extremely eager to use the Australian product. This case illustrates the fact that Australia-Japan trade could not flourish as long as Japan lacked a means of financing its purchases from Australia centred on wool during the early occupation period.

Chapter 4 reveals SCAP's conservative management of sterling funds and the stagnation of Japan's sterling trade until mid 1949. The Overall Payments Agreement unleashed active demand for Japanese goods such as cotton textiles among the sterling area countries. Concerned about the heavy dependence of the Japanese industrial production on raw materials from the dollar area, such as raw cotton, SCAP gave only low priority to purchases from the sterling area in the issuance of import licences, because capacity to supply strategic materials such as Indian raw cotton was extremely limited. Given Japan's dependence on US appropriated funds, SCAP was reluctant to run the risk of a dollar drain, allowing the sterling area to import in sterling transactions Japanese goods produced from raw materials from the dollar area. Hence, emphasising the urgent need for dollar earnings, SCAP tried to give higher priority for procurement of raw materials for industrial goods which could earn dollars through export and from sources which were prepared to purchase these Japanese goods. SCAP even showed interest in diverting imports not only of raw wool but also of wheat away from the sterling area to South America which seemed to have considerable demand for Japanese manufactured goods. SCAP officials in charge of the sterling funds also adopted a conservative approach to sterling trade, reluctant to give approval to the allocation of these funds for imports unless they had an adequate amount of sterling balance in hand. Thus SCAP tended to underbuy from the sterling area. When SCAP officials denied the possibility of converting accumulated sterling surplus into dollars,
the sterling area countries, in turn, tightened their import licensing against Japanese goods. Australia’s sales to Japan were badly affected by SCAP’s approach, which was biased against sterling trade out of its concern about dollar savings. It tried to link Japanese trade firmly with the dollar area, even at the cost of more multilateral expansion of commercial networks.

Chapter 5 reveals that SCAP began to recognise the significance of sterling trade for Japanese economic recovery from late 1949. SCAP did not convert its sterling funds into dollars even on the occasion of the devaluation of the pound sterling in September 1949 lest the sterling area should cease purchases from Japan for fear of a dollar drain. From the end of that year, SCAP authorised vigorous purchasing in the sterling area, particularly in Australia. Australia not only emerged as an important supplier of raw wool and wheat but also sustained Japanese exports to the sterling area countries which enjoyed extra purchasing power in the shape of sterling funds earned by Australia from Japan. The change in SCAP’s approach reflected the shift in the US occupation goals from suppressing Japan’s military strength to promoting its economic recovery and self-reliance, as illustrated in the so-called ‘reverse course’ of the occupation goals. However, due to the nature of Japan’s purchases from the sterling area, which tended to have a heavy seasonal concentration, and as a result of the deliberate delay in the relaxation of Britain’s tight import licensing, SCAP often fell short of sterling funds on a short term basis. When the British financial authority hesitated to extend special credit facilities to meet SCAP’s seasonal sterling shortage, the conservative SCAP fund controllers tried to improve the situation by a suspension in granting sterling import licences, to the detriment of Australia’s commercial sales. Although SCAP officials began to show interest in trade promotion on a more multilateral basis without giving top priority to dollar saving, they were yet to appreciate fully the importance of sterling trade.

Chapter 6 examines how SCAP came to integrate sterling trade with Japan’s economic recovery and self-reliance through the expansion of industrial production and trading activities. In the negotiations for a Sterling Trade Arrangement for the year 1950/51, SCAP officials went so far as to propose the establishment of freer non-discriminatory trade rules between Japan and the sterling area. SCAP’s approach was no longer biased towards dollar trade, for it agreed to ‘swap’ dollars for sterling to cope with
the seasonal shortages. SCAP also came to regard removal of the dollar convertibility clause in the Overall Payments Agreement as acceptable if the range of Japan’s sterling trade was widened through freer transferability of Japan’s sterling balances. In fact, the existence of the dollar convertibility clause had become meaningless, for SCAP showed little hesitation in increasing the amount of its ‘sterling working balance’ for which it had agreed to waive the right to convert into dollars. Purchases from Australia were also substantially liberalised as the automatic approval system was applied to a large part of wool import in 1950. Freed from financial restraints, Japan’s sterling purchases expanded considerably to sustain expanded production activities during the Korean War Boom. At this stage, SCAP eventually confirmed its commitment to the strategy to pursue Japan’s economic self-reliance through trade promotion on a more multilateral basis.

Chapter 7 covers the stage where policy discretion on sterling trade and the negotiating power for a new Sterling Payments Agreement to replace the Overall Agreement was handed over to the Japanese government, in preparation for the San Francisco Peace Treaty in 1951. While Japanese officials made an attempt to introduce the GATT principle of non-discriminatory freer trade in the negotiations, their initial stance towards sterling trade was not as positive as their SCAP predecessors. They opposed the British request to remove the dollar convertibility clause because this might invite excessive accumulation of unusable sterling surplus in Japan’s accounts. But their real intention was to keep the Japanese currency as hard as possible and to link Japanese trade once again more closely with the dollar area. The Japanese government even considered the possibility of proposing Japan’s treatment as a dollar area country in the British import licensing system, should the United Kingdom refuse to retain the clause. This was an extraordinary option which might have jeopardised the commercial networks with the sterling area established under the Overall Payments Agreement.

In the background was the fact that Japanese government and business circles had too high an expectation of the US-Japan Economic Cooperation Program for strategic economic aid to Southeast Asia. The enticement of a stable source of extra dollar supply was such that the Japanese could not appreciate the significance of the sterling trade network already established by SCAP. However, the Cooperation Program did not bear fruit. In the end, Japan was forced to concede to the British request on political grounds in
order to finalise the sterling negotiations in time for the opening of the San Francisco Peace Conference. Japan’s approval of the removal of the dollar convertibility clause indicated that Japan had to make commitment to a trade strategy directed at developing its trade network on a more multilateral basis. In other words, the Japanese were forced to shake away their feeling of dependency on the United States, on the eve of the restoration of independence.

Chapter 8 discusses Japanese responses to the expansion of sterling trade following the 1951 Sterling Payments Agreement. After the removal of the dollar convertibility clause, the sterling area increased its purchases from Japan remarkably from the latter half of 1951 to early 1952. As a result, Japan accumulated a huge amount of sterling surplus. There arose a controversy within the Japanese government over measures to tackle these sterling accumulations. As the Japanese exchange control authority, the Foreign Exchange Control Board (FECB) took the view that it was unsound to accumulate unusable sterling surpluses, as it would weaken Japan’s dollar position. The FECB advocated the introduction of drastic financial restraints on export sales to the sterling area. The Ministry of International Trade and Industry (MITI) and the Ministry of Foreign Affairs (MFA) argued that such export restraint measures would do damage to the commercial networks with the sterling area and that the introduction of such arbitrary restrictive measures might infringe the principle of freer multilateral trade under the Bretton-Woods system in which Japan had already pledged to participate. The solution to the sterling accumulation should be sought in expansion of procurement of sterling commodities, they argued.

In the event, export restraint measures were introduced in a much more moderated form than originally proposed by the FECB in March 1952, due to the intervention by MITI and the MFA. This meant that Japan reconfirmed its intention to pursue expansion of sterling trade under the Sterling Payments Agreement and its commitment to the strategy for trade promotion on a more multilateral basis. In fact, the Japanese government unveiled extensive procurement programs from the sterling area in which Australia consolidated its position as the main commodity supplier for Japan. As illustrated by the conclusion of the long-term barley purchase contract with Australia in November 1952, Japan came to emphasis securing stable supplies of Australian products on a commercial basis.
The sudden increases in Japanese imports after the new Sterling Payments Agreement resulted in the deterioration of the balance of payments position of the sterling area countries. Under guidance from London, the sterling area adopted collective action to tighten sharply import licensing in March 1952. This caused a rapid drain of Japan’s sterling funds, and a serious sterling shortage resulted. In 1953, Japan’s trade balance continued to deteriorate not only with the sterling area but also with the dollar area and other countries with which Japan settled trade through open accounts. It became imperative for Japan to overcome this crisis in the overall balance of payments position in 1953–54.

AUSTRALIA’S ROLE IN JAPANESE STRATEGY FOR ECONOMIC SELF-RELIANCE

Chapter 9 looks at the measures adopted by the Japanese government which tried to tackle the crisis through export promotion rather than arbitrary import restrictions. The Yoshida government attributed the balance of payments crisis to the overheated economic conditions that developed in anticipation of the continuation of the Korean War Boom. Yoshida considered it imperative to strengthen Japan’s industrial competitiveness by restraining inflationary pressure and at the same time rationalising industrial structure, in order to overcome the fundamental bottlenecks affecting Japan’s economic self-reliance. Hence, the Yoshida government opted for an austere economic policy to restrain domestic demand rather than introduce selective import controls as had occurred in the sterling area. Such import restrictions were considered unhelpful since they might have aggravated inflationary pressure. An immediate solution to the crisis in the balance of payments could only be found in the promotion of exports. Industrial rationalisation programs aimed at strengthening the competitiveness of the heavy and chemical industries. When heavy industry products became competitive enough to match those of the other Western industrialised countries, Japan could expect to increase its heavy industrial exports to Southeast Asia where it enjoyed a geographical comparative advantage. But it would still take some time before this rationalisation process was fully completed and the region enjoyed the political stability necessary to initiate economic development.
Under these circumstances, the Japanese government again showed an inclination towards dependence on extra dollar supplies. In the negotiations for the Mutual Security Act (MSA) Agreement with the United States in 1953–54, the Yoshida government tried to obtain not only purely military assistance but also aid for economic development, in return for its commitment to increasing self-defence efforts. Business circles welcomed this aid program proposal, as they had the fruitless US-Japan Economic Cooperation Program in the previous years. However, the US administration not only flatly rejected the Japanese request, but also urged the Japanese to make efforts for economic self-reliance through sound trade promotion.

If Japan was to address the crisis through trade promotion without counting on extra dollar supplies, it had to pursue export promotion through minimising overseas trade barriers against Japanese goods. While North American markets had been liberalised in the first half of the 1950s through the conclusion of the formal bilateral trade treaty and agreement with the United States and Canada, the sterling area had imposed tight import restrictions against Japan since 1952. It became imperative for the Japanese government to initiate economic diplomacy to persuade sterling area countries to relax their selective and tight import licensing against Japanese goods, in an attempt to improve the serious sterling shortage.

Australia was the main target in this economic diplomacy, as Japan recorded the largest bilateral deficit with Australia among the sterling area countries during the balance of payments crisis. Between 1952 and 1954, Tokyo requested that Canberra should relax its import controls on several occasions, insisting that with the risk of a dollar drain eliminated, Australia should cease its discriminatory treatment and categorise Japan as a soft currency source in its import licensing system. At first, Australia conceded only minor relaxations. In 1954, however, Japan’s tight monetary policy severely affected Australia’s sales of wool and other commodities, and the Japanese government attempted to divert imports away from Australia, as it concluded barter trade arrangements with Argentina for the purchase of wool and the exports of machinery. Alarmed at these developments, the Australian government made a significant decision to relax its import restrictions substantially by giving most imports from Japan soft currency treatment in November 1954. This measure virtually put Japan’s export trade to Australia on a normal non-discriminatory
basis in that most Japanese goods were to be given equal treatment in import licensing with other soft currency countries in the Australian market. Although Australia still retained the right to invoke selective import restrictions targeting Japan, import licensing to safeguard the balance of payments played a far more significant role in Australia's domestic protection at that time. Thereafter, the focus in Australia-Japan trade relations shifted towards political issues such as Japan's accession to the GATT and negotiations toward a formal trade agreement between the two nations.

The significance of the diplomatic approach to ameliorate sterling shortages was that Japan further deepened its commitment to a multilateral based trade strategy, in that it opted for minimisation of overseas trade barriers to promote export competition on a commercial basis. The government had little alternative but to rule out arbitrary import restrictions and dependence on extra dollar supply, if it was to aim seriously at achieving economic self-reliance. Under this strategy, the Japanese recognised the need not only to secure stable commodity supplies from Australia but also to promote exports to the Australian market.

Chapter 10 concludes that sterling trade played a central part in the Japanese strategy for economic recovery and self-reliance through trade promotion on a more multilateral basis in the postwar period. Australia contributed strongly towards sustaining the expansion of Japan's sterling trade in that it provided the sterling area countries with purchasing power for Japanese goods through its bilateral surplus earned from export sales to Japan. Although SCAP and the Japanese government were once inclined to develop a postwar Japanese trade network with a preference for dollar earnings and with Southeast Asia as a substitute for the Chinese continent, against sterling trade, such a strategy did not bear fruit. Japan had no alternative but to aim at expanding its trade in any direction without bias toward any specific currency area or region. In the implementation of this strategy, the sterling area made a significant contribution to sustaining Japanese industrial recovery through active import demand for Japanese industrial goods. Australia's role was important as a lubricator of postwar Japanese trade growth under the Sterling Payments Agreements. Australia's supply capacity was significant in maintaining the overall trade balance between Japan and the sterling area. By providing adequate purchasing power with other sterling countries through its bilateral trade surplus with Japan, Australia helped Japan
to expand commercial opportunities in sterling markets. Without Australia, Japan would surely have been forced to restrain expansion of sterling trade, because of concern about a dollar drain through excessive accumulation of unusable sterling surplus, or the sterling area would have kept imports from Japan under tighter control to prevent Japan from converting its sterling balance into dollars. As Japan's dependence on industrial exports to multilateral channels increased, minimisation of trade barriers in the sterling markets through trade negotiations became a more pressing issue in the Japanese economic diplomacy. Realising the significance of securing a profitable export market in Japan, Australia took the initiative to consolidate freer bilateral trade relations with Japan, through the relaxation of its import licensing against Japanese goods in November 1954.

Chapter 10 further examines the importance of the 1957 Commerce Agreement in the context of Australia's role in the evolution of the postwar Japanese strategy for trade promotion on a more multilateral basis. As one of the biggest beneficiaries of the Japanese strategy for trade in multilateral directions, it was in Australia's interest to respond positively to the Japanese aspirations for participation in the liberal international trade forum under the GATT, lest Japan should move away from this strategy and divert import trade towards other suppliers. At the same time as the announcement of the relaxation of import licensing in November 1954, Australia also submitted the proposal for opening trade talks with Japan. Canberra revealed a preparedness to negotiate a formal trade agreement containing exchange of most-favoured-nation treatment. Discouraged by strong anti-Japanese sentiment in Australia and its restrictive trade approach as revealed in its retention of Article XXXV on the occasion of Japan's accession to membership of the GATT, however, Japanese officials were remarkably passive towards the offer to negotiate. As the Japanese realised the genuineness of Australia's intentions for bilateral trade liberalisation, they became confident about the prospect of breaking through the international chains of trade discrimination under the GATT and the feasibility of the multilateral trade strategy.

Acceptance of the Australian request for non-discriminatory treatment of wheat imports meant that the Japanese government also had to make an important decision to abandon the surplus disposal agreement with the United States. The surplus disposal program symbolised Japan's lingering attachment to dependence on US trade channels and inclination towards domestic agricultural development. The relinquishment of the program
which gave preference to US agricultural products meant that Japan reconﬁrmed its commitment to trade expansion on a multilateral basis guided by commercial factors. From this perspective, the 1957 Commerce Agreement can be seen as Australia’s signiﬁcant role in consolidating the Japanese commitment to the strategy for trade promotion on a more multilateral basis. This thesis explores the role of the Sterling Payments Agreements in laying the foundations of this strategy.
2 Japan's Postwar Trade Strategy and the Role of the Sterling Trade and Payments Agreements

When Japan was defeated in the Pacific War, the reconstruction of the war-shattered economy became the most pressing task for the Japanese nation. The enormous reduction of production capacity and the loss of overseas colonies forced Japan to rethink its trade strategy for economic recovery. This chapter examines the four different policy issues in Japanese trade strategy in the immediate postwar period: the re-establishment of commercial links with East Asia; the policy debates over promotion of foreign trade and/or domestic development; the reliance on US-Japan economic cooperation; and the engagement in establishment of more multilateral commercial networks through bilateral trade and payments agreements.

It will be shown that the fourth element in the trade strategy involving trade and payments agreements with the sterling area set Japan on a path towards trade expansion on a more multilateral basis. Australia played a significant role as the lubricator of Japan's overall sterling trade. Indeed, it was Australian export earnings which provided the whole sterling area with purchasing power for essential Japanese manufactured goods.

RE-ESTABLISHING COMMERCIAL LINKS WITH EAST ASIA

Just a day after the end of the Pacific War on 15 August 1945, the inaugural meeting of the Sengo Mondai Kenkyukai [Workshop on the postwar problems] was held, attended by a dozen young Japanese bureaucrats and academics. Its organiser, Saburo Okita, recalls that they started talking about postwar Japan's participation in the liberal international economic organisations under the Bretton-Woods system from the outset.1 After the forty odd

---

1 Saburo Okita, Tohon Seiso: Watashi no Rirekisho, Nihon Keizai Shimbunsha, 1981, p.56. Its English translation is titled, Japan's Challenging Years: Reflections on my Lifetime, which was published by the Australia Japan Research Centre, Canberra in 1983.
meetings, the workshop issued its report entitled *Nihon Keizai Saiken no Kihon Mondai* [Basic problems in reconstruction of the Japanese economy] in March 1946. A revised version of this report was published by the Ministry of Foreign Affairs in September. The report proposed a strategy for the restoration of the war-devastated Japanese economy through participation in the international division of labour. It presented arguments about the direction of Japan’s trade. The report categorically rejected seeking autarchy derived from ‘narrow-minded nationalism’ on the grounds that it would result in the deterioration of Japanese economic activities as the prewar economic management for autarchy had invited the devastation of the country by the Pacific War. Instead, it emphasised an alternative strategy to promote trade through participation in the international division of labour.\(^2\)

Despite its strong interest in international trade, the report did not deny the necessity to attain self-sufficiency in foodstuffs and raw materials during the early postwar period when low production levels, unfavourable terms of export and lack of finance made it extremely difficult to initiate trade.\(^3\)

With regard to the specific features of postwar Japanese trade networks, the government planners, as exemplified in an official memorandum of mid 1946 from the MFA, proposed to promote the exports of heavy and chemical industrial goods towards ‘Toa’. While the Chinese characters for ‘Toa’ stand for East Asia, the concept of ‘Toa’ developed here referred not only to the Far East but also to Southeast and South Asia including India.\(^4\)

The Japanese idea for re-establishing commercial links with ‘East Asia’ was based on the following three considerations. Firstly, the Japanese planners did not see a bright future for light industrial exports. Although they did not deny their significance, it was expected

---


\(^3\) Ibid., p.198.

\(^4\) It was stated, ‘If Burma and India are included in the East Asian areas, trade with East Asia will form a great part of Japan’s trade with Asia’. Gaimusho, ‘Nihon no Tai-Toa Boeki no Shorai’ [The future of Japanese trade with East Asia], 20/9/46, Gaimusho Gaiko Shiryokan [Diplomatic Archives Office, MFA; hereafter abbreviated as DAO], E’2.0. 0.9. An English memorandum on Japanese trade appears in the same DAO documents. MFA, ‘Japan’s Trade with the East Asian Countries’, Undated (August 1946?), DAO, *ibid.*
that Japan's labour-intensive sectors would face tough competition from Asian countries such as China and India which were expected to achieve rapid industrialisation centred on these sectors. Moreover, it would become difficult to secure procurement of an adequate volume of raw materials such as raw cotton from these countries as they would try to utilise the commodities for their own industrial production.\(^5\) Nor did the Japanese strategy refer to the possibility of light industrial exports to the Western markets as there had been in the 1930s. The option of an export drive through 'social dumping' was categorically rejected on the grounds that the Bretton-Woods system would not permit that, and cheap labour would hamper development of Japanese domestic markets.\(^6\)

Secondly, the strategy laid special emphasis on heavy and chemical industrial exports to East Asia. The planners were conscious of the 'intermediate status' of the Japanese industrial structure and observed that, 'as much cannot be expected of the exports of industrial goods to the United States and highly industrialized European countries, Japan is obliged to seek markets for them in East Asia'.\(^7\) While they pointed out that the export of machinery and chemical products to East Asia had flourished from 1937 on, their idea depended on the calculation that, in an attempt to procure capital goods for industrialisation with their lower national incomes, East Asian countries might look to the importation of Japanese manufactures which were cheaper, even if of lesser quality, than those from Western sources.\(^8\) This calculation was based on the expectation that it was most favourable for Japan to develop industrialisation, for example in machinery, where large values could be added to the input of labour, Japan's sole abundant resource. In addition, the similarity of living standards, labour efficiency and physical conditions in East Asia would allow Japanese manufactures to adapt better to the needs of Asian consumers than could Western manufacturers.\(^9\) The Japanese aspiration to heavy industrial production was such that it foreshadowed the later development of the other strategies for domestic development and reliance on US economic cooperation, when the East Asian commercial links evaporated.

---

\(^5\) 'Kaitei Nihon Keiai Saiken no Kihon Mondai', pp.150-151.
\(^6\) Ibid., p.198.
\(^7\) 'Nihon no Tai-Toa Boeki no Shorai', p.5.
\(^8\) Ibid., p.2
\(^9\) Ibid., p.15.
Thirdly, the aim of the strategy was the establishment of an East Asian trading sphere under the heading of ‘industrial division of labour on an equal footing between China and Japan’. The idea derived from the awareness of the absolute necessity of export earnings from East Asia to finance the importation of materials required for Japan’s economic recovery, as Japan was expected to become more dependent on the US for these supplies. Although the planners had the clear intention of committing Japan to the freer and multilateral international trade system, they were conscious of the difficulties in developing trade under this system in the light of the shortage of products and tight exchange controls. Hence, they saw the need to re-establish traditional commercial links with China.

These considerations led Japanese officials to concentrate on development of regional trade with East Asia. Their bias towards East Asian trade can be traced in the proposal to maintain purchases, regardless of the economic rationale, of rice and sugar from Taiwan and Korea which were dearer than other suppliers, in order to give these countries purchasing power for Japanese manufactures. Emphasis on integration of postwar Japanese trade with East Asia might be perceived as a vestige of Japan’s wartime ambition for the Great East Asian Co-Prosperity Sphere. To allay these fears, the planners argued:

Of course, Japan has no intention of monopolizing East Asian trade but expects such countries as British India, Australia, and China will take part in it. On the contrary, Japan is most anxious to go into rational international division of labour or international economic cooperation, instead of competition, with them [my emphasis].

In view of the strong focus on Asia’s rapid industrialisation, participation in a ‘rational international division of labour’ by the three countries nominated in the document may have meant participation as industrial manufacturers rather than commodity producers. If so, it is interesting that the two big trading nations in the sterling area, namely India and Australia, were regarded here as rivals in industrial exports rather than potential export markets and raw material suppliers. If these countries were to develop as industrial rivals, Japan might face tough competition not only from the Western advanced producers but also from these

10 Ibid., p.7.
12 The Foreign Affairs memorandum expected that ‘the dilemma will be solved in the world trade structure which aims at multilateral trade relations’. ‘Nihon no Tai-Toa Boeki no Shorai’, p.13
13 ‘Japan’s Trade with the East Asian Countries’, pp.2-3.
neighbouring countries. Such a lack of confidence in Japanese industry's competitive ability and overestimation of the prospects of industrial development of these Asia Pacific countries may partly explain the reason for inclination which emerged later towards domestic development and reliance on the US over an option to promote sterling trade on a commercial basis.

There were serious difficulties in the early postwar strategy with the promotion of heavy industrial exports to East Asia as a solution to increasing dependence on US supplies. Firstly, the Japanese plan neglected the possibility that Japanese exports would face tough competition from Western countries in East Asian markets. To be sure, at the initial stage of the recovery of postwar industrial production, exportation of Japanese heavy industrial goods to East Asia was considered feasible on the grounds of their price competitiveness, due to the geographical proximity to the East Asian markets and government subsidies.

The extremely tough reparations program in the initial stages of the occupation was moderated in late 1947, and Japanese industries were relieved from concern that the Allied Powers might confiscate their production facilities and equipment as reparation for East Asian countries. The shift in US occupation policy vitalised Japanese aspirations for the formulation of a program for economic recovery. In May 1948, the Japanese Economic Stabilisation Board started discussing a Five-Year Plan for Economic Restoration which aimed at overcoming inflation through the expansion of industrial production. Expansion of industrial activities was in line with the concept of *Keisha Seisan Hoshiki* [First priorities for production of coal and steel], which aimed at the recovery of production levels by concentrating domestic resources on coal and steel production through interventionist measures such as loans by the Reconstruction Finance Bank and price subsidies. The policy played a role in preventing the disruption of the process of heavy and chemical industrialisation after the war; the cost was hyper-inflation. Japanese steel products thus

---


16 Yutaka Kosai, ‘Fukkoki’ [Period of economic recovery], Ryutarou Komiya, Masahiro Okuno and Kotaro Suzumura, eds., *Nihon no Sangyo Seisaku* [Japan's industrial policy], University of Tokyo Press, 1984, pp.30-34.
became competitive with those of other advanced countries because of government subsidies.  

US occupation policy shifted towards giving first priority to Japan’s economic stabilisation rather than the restoration of production levels, through a policy for restraining inflation at any cost. In December 1948, the Supreme Commander for Allied Powers, General Douglas MacArthur, ordered the Japanese government led by Shigeru Yoshida to implement a ‘Nine Point Economic Stabilisation Directive’ introducing extremely tough fiscal restraint aimed at balancing the government budget. In order to promote the economic stabilisation program, Joseph Dodge, president of the Detroit Bank, visited Japan as financial advisor to SCAP in February 1949.

The austere domestic economic policies recommended by Dodge discouraged Japanese aspirations for the expansion of heavy and chemical industrial exports. Based on the idea that expansion of production was not a panacea to increase exports, the Dodge Line curtailed government subsidies drastically in order to achieve a ‘genuine’ balance of the budget. Although the Dodge Line aimed at Japan’s trade recovery through strengthening its industrial competitiveness by means of austere measures in the mid to long term, in the short term it exposed Japanese industries to tough international competition, and the abolition of price subsidies revealed the uncompetitiveness of the Japanese steel industry. Cohen explains the difficulties facing the Japanese industries and their effect on export trade:

Naturally, in the absence of subsidies, higher steel prices reflect themselves in higher costs in the steel-using industries such as machinery and equipment, metal products, rolling stock, etc. Paradoxically, therefore, it is just those Japanese industries which have the best hope of expanding exports that are high-cost producers when compared with international competitors, while the older, lighter consumer goods industries, more of whose products it may be difficult in the future to sell abroad because of the growth of indigenous industry in underdeveloped countries, are lower-cost producers.

---

17 Cohen, 1958, p.70.
18 Shiraishi, 1983, pp.54-55.
20 Cohen, 1958, pp.75-76.
Thus, in order to sustain heavy and chemical industrial exports, even to the adjacent East Asian markets, Japan had to spend some time on the drastic rationalisation of these sectors. Since industrial rationalisation would require launching new investment to modernise production facilities, a sharp contradiction was evident between the concept of the Dodge Line and the reality of industrial rationalisation; in fact, the Japanese economy had to wait until the Korean War Boom provided extra revenue for both the government budget and the balance of payments to enable governmental and industrial circles to implement rationalisation programs. Before then, Japan had no alternative but to earn export income through the competitive light industrial sector, if she was to pursue opportunities in the freer multilateral international trading system without developing preferential commercial links with the adjacent East Asian region.

The second difficulty in the Japanese trade strategy was that its credibility was totally dependent on the premise that trade with China would be fully open to postwar Japan, and that China would soon become politically stable enough to implement rapid industrialisation. It is evident that the strategy put Japan’s traditional partners such as China, Korea and Taiwan at the centre of its East Asian trade strategy. Behind the emphasis on traditional Chinese trade lay a pessimistic view about the development of commercial links outside the Far Eastern region. The MFA report of September 1946 on problems in the recovery of the Japanese economy pointed out that there was uncertainty about whether Japan would be allowed to join the free multilateral international trade system. While many Asian nations were obtaining independence during the 1940s, there was anxiety among the planners that Western countries would still exert influence in keeping Japanese goods away from their former colonial markets as they had done against the Japanese export drive during the 1930s. One of the documents revealed this suspicion about possible barriers to be imposed on Japanese goods in these markets. It stated that when Japan had to face competition from Western countries in East Asian markets, it would be convenient if Japan was advised in advance as to how much she would be ‘permitted’ to export to these outlets.

---

23 ‘Nihon no Tai Toa Boeki no Shorai’, p.15.
If Japanese industry was to compete with European products in Southeast Asian markets under such conditions, the supply of cheaper raw materials from China was crucial. Okita, the central figure in the formulation of the strategy, envisaged enormous difficulties in the future of Southeast Asian trade and tough competition with European manufactures in these markets, because of the uncompetitive nature of Japan's steel products resulting from the breakdown in the supply of raw materials from cheap Chinese sources.24

When the recession under the Dodge Line hit the Japanese economy, there was increased optimism about the restoration of Chinese trade. In fact, a survey undertaken by the Federation of Economic Organizations [Keidanren] from late 1949 to early 1950 found that, among its member companies, there was overwhelming support for resumption of Chinese trade as a solution to the economic crisis. Following the shift to completely private trade at the beginning of 1950, SCAP also began to encourage exports to Communist China.25 The US Department of State made a decision to permit Japan to trade with China in March 1950, and the Japanese commercial firms entered several contracts for purchases of Chinese commodities such as soya bean, coal and salt. At the end of April, the House of Councilors passed a resolution for the promotion of China-Japan trade.26

The rising tide of interest in Chinese trade was completely shattered when Communist China joined the Korean War against the United Nations Forces led by the United States in October 1950. In response to the US embargo on trade with China, the Japanese government introduced a ban on exports to China in December 1950. Retaliation by China halted plans to import coal, iron ore, soya bean, and other minerals and made procurement of these commodities from dearer alternative suppliers inevitable.27 Since Japan's embargo against Chinese trade under the US occupation covered a far wider range of goods than

24 Saburo Okita, 'Ajia Keizai to Nihon Keizai' [Japan and Asian economies], Sekai, no.52, April 1950, pp.48-49.
those introduced by the West European countries under the Coordinating Committee for Export to Communist Area (COCOM), Japan’s trade with China ceased except for indirect trade via Hong Kong channels.  

When the special procurement boom began to subside in 1952, there was renewed optimism about Chinese trade among Japanese domestic business circles. On their return from the International Economic Conference in Moscow, the three Japanese Diet Members visited Beijing to conclude a Japan-China Trade Arrangement in June 1952. Although the Japanese government had made application to participate in COCOM a month before — soon after the power to regulate of Chinese trade was handed over by SCAP — it expected that, having joined COCOM, Japan’s trade with China would be favoured by more moderate regulation. In fact, hardline US policy against China forced the Japanese government to accept stricter regulation of Chinese trade.  

Japan’s trade regulations against China remained stricter than those against other communist countries until 1957. Hence, in the early 1950s the Japanese had to face the problem of making up for the loss of Chinese trade by establishing alternative commercial networks.

FOREIGN TRADE OR DOMESTIC DEVELOPMENT?

The recession induced by the deflationary policy of the Dodge Line and the closure of Chinese trade resulted in an important policy debate over the future direction of the Japanese economy. Economists such as Hiromi Arisawa and Shigeto Tsuru, both of whom had been involved in the formulation of the MFA economic recovery strategy in the early postwar period, advocated maximisation of the development of Japan’s domestic resources, warning of the danger of excessive dependence on foreign trade. Their idea, which was called kaihatsu shugi (the domestic development school), was based on pessimism about the international trade environment at the height of the Cold War. Arisawa wrote, showing his anxiety about the Dodge Line:

---

28 Osamu Ishii, ‘Tai-Chu Kinyu to Nihon no Keizai Jiritsu’ [Chinese embargo and Japan’s economic self-reliance], Nihon Senryō no Takakuteki Kenkyu (Kokusai Seiji) [The Occupation of Japan: Studies from Various Viewpoints (International Relations)], no. 85, May 1987, p.117.
29 Ibid., pp.117-121.
30 Ibid., p.127. Ishii’s article points out the inter-departmental conflicts over the problem of the embargo on Chinese trade and its effect on Japan’s economic self-support within the US administration under President Dwight Eisenhauer.
In these days the process for economic stability is the process for decontrol as well as return to free trade ... However, if we turn our eyes to the serious problems facing the Japanese economy under the international circumstances in which post-war Japanese economy is placed, there is no guarantee that return to free trade will offer a self-evident answer for their solution.  

He pointed out three factors which made the postwar international circumstances ‘disadvantageous’ to the expansion of trade. Firstly, the closure of East-West trade because of the Cold War had reduced export markets for capitalist countries. Secondly, rapid technological innovation such as the introduction of synthetic fibres would reduce world demand for Southeast Asian raw materials. This would result in a shrinkage of Southeast Asian purchasing power. Furthermore, development of the cotton textile industries in India would curtail India’s exports of raw cotton and imports of cotton piece goods. Thirdly, the concentration of the wealth and capital of the world on the United States had resulted in a worldwide shortage of purchasing power. It would still take some years before US dollar aid led to expansion of other countries’ exports.  

Tsuru did not hide his scepticism about the possibility of a return to an international free trade system, in view of the rising significance of ‘political’ influence in trade. His arguments centred on the increase in trade within the communist bloc and within the British Commonwealth of Nations, financial settlement of trade through dollar aid and the increasing significance of quantitative import restrictions, instead of tariffs, as an instrument for trade control. Thus he asserted, ‘lower prices may not sell as much as in the past’ and ‘Japan will surely lose if it becomes the only country seeking free trade’.  

According to Tsuruta, the ideas of Arisawa and Tsuru are in line with *Nihon Keizai Saiken no Kihon Mondai* in that they were united in their emphasis on the significance of government intervention and in their doubt about the market mechanism of automatic adjustment. As discussed earlier, *Nihon Keizai no Kihon Mondai* revealed a strong
preference for trade with China centred on heavy and chemical industrial exports. The emphasis on the development of domestic resources through economic planning was a reaction, in desperation, to the stern realities of international politics under the Cold War which deprived postwar Japan of its traditional trade partners on the Chinese continent.

Opposing the domestic development school, there emerged ideas stressing the significance of foreign trade for the Japanese economy. Ichiro Nakayama, Professor of Economics at the Hitotsubashi University in Tokyo, represented the foreign trade school (boeki shugi). In his book entitled *Nihon Keizai no Kao* [The face of the Japanese Economy], Nakayama was optimistic about the international trade environment and the future of Japanese trade. He praised the Bretton-Woods system because it made clear its intention to construct a peaceful world through the recovery of world trade and creation of an international key currency. Nakayama appreciated the Bretton-Woods system's stress on the principle of international cooperation in management of the world economy. On the future direction of Japanese trade, Nakayama revealed a strong hope for Southeast Asian trade growth fostered by programs for Asian reconstruction and development under the US Point Four Plan and the British Colombo Plan.

This emphasis on Southeast Asian trade was the antithesis of the domestic development argument. Nakayama warned against expecting too much from Chinese trade, insisting that there was little possibility of an increase in Chinese purchases of Japan's competitive consumer goods such as textiles, as China would confine its imports to capital goods in an attempt to construct a foundation for economic development at any cost. Nakayama claimed that there was no need to fear Asia's industrialisation because there would remain ample room for the horizontal division of industrial production. There should also not be an overestimation of the effects of technological innovation in diminishing international import demand for Asian raw materials such as natural rubber, raw silk, raw cotton and raw wool. This argument ignored the economic cost in the production

---

35 Ichiro Nakayama, *Nihon Keizai no Kao* [The face of the Japanese economy], Nihon Hyoron Shinsa, 1953, pp.144-145. This book is an omnibus of his articles which mainly appeared in the monthly journal *Hyoron* during the late 1940s to the early 1950s. The debate originated from Nakayama's article of the same title as his book which appeared in the December 1949 issue of the *Hyoron*. In the subsequent issues, Arisawa and Tsuru raised their criticism to Nakayama's arguments for foreign trade.

36 Ibid., pp.96-102.
of substitute goods made from domestic resources. While Nakayama’s arguments were based on the theory of the international division of labour in accordance with comparative advantage, he did not present specific policy options for the expansion of trade. But his arguments suggest that Nakayama had in mind export promotion centred on light industrial goods, making full use of their strong competitiveness.

In view of his emphasis on the unfavourable effect of import restrictions in the sterling area and the restrictive nature of bilateral trade and payment agreements, Nakayama seems to have been conscious of the need to minimise restrictive measures imposed on Japanese exports. He took an optimistic view of the prospect for reducing trade barriers, when he suggested that a solution for overcoming the stagnation of trading activities should be sought through strengthening international cooperation. Further, he warned against overemphasising the politicisation of postwar trade. Taking as an example the import restrictions adopted by the sterling area countries in 1951–52, he argued that the United Kingdom would not be able to keep the other British Commonwealth nations from opening their doors to Japanese goods as long as these nations saw mutual interest in Japanese trade. This view was in line with that of the Japanese government approach during the 1950s and the early 1960s when the economic diplomacy to open export markets through bilateral negotiations played a significant role in the promotion of Japan’s trade policy, as discussed in Chapter 9.

Okita presented his own unique idea which in a sense encompassed the arguments of both Arisawa and Nakayama. As one of the authors of *Nihon Keizai Saiken no Kihon Mondai*, he was well aware of the bleak international circumstances in which the existing political situation prevented full realisation of the benefits of the international division of production. Hence, Okita argued for the need to maintain the domestic steel industry through ‘artificial measures’ such as protective tariffs and subsidies, even at the cost of economic efficiency, in view of the significance of maintaining employment, saving foreign exchange, maintaining strategic industries and minimising the unfavourable effect of fluctuations in the world economy. On the other hand, he shared Nakayama’s optimism about international cooperation under the Bretton-Woods system, insisting that, ‘if

---

37 Ibid., p.138.
38 Tsuruta, 1982, p.29.
judgements and considerations based on long-term interests for the world economy come forth, overcoming the specific interests of private capital, there is no reason to assert that international trade will result in unilateral losses for smaller nations'.

According to Tsuruta, postwar Japanese industrial policy was developed in line with Okita's views, as shown in the implementation of the heavy industrial modernisation and rationalisation programs along with promotion of overseas export centred on competitive light industrial goods during the early to mid 1950s. He observes the tension over the preference in economic policy between trade promotion on a market-oriented commercial basis and heavy and chemical industrialisation through government intervention. There was no necessary consensus within Japanese domestic policy circles about the feasibility of expanding heavy industrial production during the 1950s. For example, Hisato Ichimata, President of the Bank of Japan, took a critical attitude against the establishment of a large-scale steel production plant in Chiba by the Kawasaki Steel Company since he was concerned about its commercial feasibility. Raising doubts about Japan's capacity to develop the automobile industry efficiently, the Ministry of Transportation supported an increase in imports as a solution to the rising demand for automobiles.

Kono provides an explanation for postwar Japanese economic policy which contained the dual elements of both trade promotion based on comparative advantage and heavy and chemical industrial development through government intervention. Under the coalition between the Socialist Party and the Democratic Party led by Prime Ministers Tetsu Katayama and Hitoshi Ashida in 1947–48, the Japanese government worked out economic restoration programs drafted by the Economic Stabilisation Board. The programs gave priority to restoration of production levels centred on the heavy and chemical industries with less dependence on overseas trade, as illustrated in Keisha Seisan Hoshiki. This direction was in line with the ideas of Tsuru, Arisawa and Okita, who all participated in the workshop for Nihon Keizai Saiken no Kihon Mondai. When Yoshida formed his second cabinet after the demise of the coalition government in November 1948, however, he showed strong leadership in turning the direction of economic policy from restoration of production to the promotion of exports. The introduction of the Dodge Line emphasising

---

40 Saburo Okita, 'Kokusai Kaihatsu ka, Bocki Izon ka' [Domestic development or foreign trade?], Kokumin Keizai, vol.4, no.6, June 1949, pp.9-14.
economic stability in 1949 further strengthened Yoshida’s position on trade promotion based on a competitive light industrial sector. But there still remained strong voices advocating heavy and chemical industrialisation through government intervention in anticipation of its effects in the creation of employment opportunities, among government and political circles centred on the domestic industrial sections of MITI. While Kono’s observation suggests that postwar Japanese economic policy was formulated with the background of tension between market-oriented trade promotion and government-led industrial development, there is no denying that Yoshida shifted the weight of government policy away from domestic development to foreign trade.

A document presented by MITI acknowledges this point. In launching the Law for Promotion of Industrial Rationalisation in July 1952, MITI warned that the apparently remarkable restoration of domestic production levels was mainly due to the instability caused by the Korean War Boom. Japan’s overall level of trade still remained extremely low. In order to maintain the minimum daily food supply of 2,160 calories per capita, as prescribed by SCAP, it was estimated that Japan still had to depend on imports for one-fifth of its total food supply, as well as other raw materials. It followed that these import demands needed to be offset by active promotion of exports if Japan was to maintain a sound balance of its external payments. Furthermore, in the light of the increasing liabilities for settlement of overseas debt, the cessation of US aid and reparation payment responsibilities, incurred with the restoration of independence, Japan needed to depend more on the promotion of trade. MITI concluded that it should adopt a stance based on the foreign trade school as a means for achieving economic self-reliance.

If Japan was to pursue expansion of foreign trade, it was imperative to find a means to finance its imports of essential foodstuffs and raw materials. In the circumstance of the worldwide dollar shortage, two options were open. The first option was to rely on US goodwill to continue dollar aid, directly or indirectly for Japan. The second was to create

---


purchasing power for Japanese goods among its trade partners through Japan’s own effort to expand two-way balanced trade. It is no wonder that the Japanese were tempted to adopt the first and easier option.

EXCESSIVE EXPECTATION CONCERNING THE US-JAPAN ECONOMIC COOPERATION PROGRAM

At the beginning of the 1950s, dissatisfaction increased within the Japanese policy circles over the austere recessionary policy of the Dodge Line and the tight regulation of Chinese trade. The stagnation of trade was such that there seemed to be no alternative but to rely on US aid unless Japan was to reverse its anti-Chinese policy and pursue the resumption of active trade with Communist China against the will of the US administration. But the outbreak of the Korean War in June 1950 and subsequent dollar earnings which accrued to Japan through special procurement provided timely relief to the Japanese economy. Special procurement provided Japan with extra dollar earnings of $150 million in 1950, $624 million in 1951, $791 million in 1952 and $803 million in 1953.44

Before the Korean War Boom, the Japanese government was preoccupied with securing dollar earnings through the US aid program for reconstruction and development of Southeast Asia. The Economic Stabilisation Board (ESB) worked on a program for Japan’s economic self-reliance in response to the introduction of the Dodge Line. Given that economic self-reliance was defined as ‘sustaining sound balance of payments as well as achieving an improvement of living standards’, Japan had to find measures to overcome the dollar shortage which was expected to emerge as US aid was withdrawn.45 The report titled Jiritsu Keizai Tassei no Shojoken [Conditions for achieving economic self-reliance]

44 Akira Inuta, Kokusai Kin’yu Boeki, [International finance and trade], Okurasho Zaiseishisitsu [Finance History Unit, Ministry of Finance(MOF)], ed., Showa Zaiseishi: Shusen kara Kowa made [The history of finance during the Showa period: From the end of the Pacific War to the peace settlement], vol.15, Tokyo Keizai Shimposha, 1976, p.606. The cited figures are the aggregated sum of the goods and services which the Allied Forces procured in Japan (special procurement in a narrow sense) and the receipts for the goods and services which the military personnel, staff and their families consumed in Japan special procurement in a broad sense).

which was submitted by the ESB on 3 June 1950 just before the outbreak of the Korean War, argued that it would be impossible to overcome the dollar shortage by 1953 given the shrinkage of raw silk exports to the US and the loss of the Chinese market, because free convertibility of sterling into dollars was yet to be restored and Japan had to depend on restrictive bilateral arrangements for the expansion of trade. The ESB report saw one option in larger demand for Japanese capital goods under an Asian version of the Marshall Plan which had been discussed within the US administration. 46

The idea for an Asian version of the Marshall Plan came from the US Undersecretary of the Army, Tracy Voorhees in January 1950. Voorhees proposed that Japan’s trade recovery be promoted through ‘coordinated aid’, that is, ‘US dollar aid to South East Asia which was tied to purchases in Japan’. 47 Voorhees’ assistant, Robert West, and Stanley Andrews of the Department of Agriculture were accordingly given a mission to study the feasibility of linking Japanese industrial production with Southeast Asia. Their report highlighted Japan’s capacity to contribute towards increased food production in Southeast Asia through supply of fertilisers, farm machinery, agricultural technicians and other capital goods to sustain agricultural and industrial development programs which were getting under way in the region. Purchases of Japanese industrial products were to be financed through increased export of Southeast Asian foodstuffs and raw materials. In fact, the Andrew-West report was optimistic that successful development programs would enable Japan to purchase two-thirds of its total food requirement from Southeast Asia and Australia by 1952. 48

On the difficulties in financing trade between Japan and the Southeast Asian countries, the report underlined the unfavourable effect of tight import licensing policies by the sterling countries led by the United Kingdom in the latter half of 1949 and the resultant shortage of Japan’s sterling holdings. It also referred to the restrictive aspects of the existing Sterling Trade Arrangement which did not allow the sterling countries which were

---

46 Ibid., pp.90-98.
47 Borden, 1984, p.126.
48 Stanley Andrews and Robert West, ‘Report of Southeast and South Asia Food and Trade Mission’, March 1950, pp.8-11. SCAP, 6365(3), ESS(A)02450. SCAP records are available at the Archives on Contemporary Political History of the National Diet Library, Tokyo. These records are copied from the original documents of the National Archives, Washington D.C. into microfiches. In this thesis, the sources of the SCAP documents are described under the heading ‘SCAP’, followed by the four digits numbers with parenthesised numbers, which correspond to the box numbers of the original documents, then followed by SCAP sections’ abbreviations such as ESS with parenthesised alphabetical letters and five digit numbers, which denote the microfiche numbers of the National Diet Library Archives.
not participating in the Arrangement (such as Burma and Pakistan) to increase their purchases of Japanese goods by paying sterling beyond the sum of their respective export earnings in their bilateral trade with Japan. The Andrews-West Report saw bright prospects for the expansion of Japan’s trade with Southeast Asia through the relaxation of existing trade arrangements.

SCAP had also begun to consider the possibility of mobilising Japan’s industrial capacity for economic development in Southeast Asia. In April 1950, a document entitled, ‘Japan’s Export Potential With Specific Reference to the Economic Development of the Countries of South and South East Asia’ was formulated by the Economic and Scientific Section (ESS).49 Mentioning the stable growth of Japanese exports to South and Southeast Asia in the postwar period, the document pointed out the importance for Japan of the import of foodstuffs and raw materials from the region. In view of the projects under consideration for domestic development in these countries such as agricultural mechanisation, improvement of transportation, communication and electric power facilities and expansion of textile manufacture, the document stressed that Japan had the capacity to meet the rising demand for machinery and transportation equipment. It was estimated that Japan’s exports to the region would increase from $232 million in 1949 to $259 million in 1950, $410 million in 1951 and $710 million in 1955.

Significantly, the document referred to the prospect for the settlement of trade through normal commercial channels, ‘in a large measure, payment for such goods [Japan’s capital goods] can be made through Japan’s imports from these [Southeast Asian] countries under existing and proposed trade agreements ... The needs of the South and Southeast Asian countries have been explored by SCAP from time to time with a view to expanding Japan’s export trade and at the same time contributing to the rehabilitation and development of those countries’.50 This seems to have reflected the complicated reaction of the ESS Chief, William F. Marquat, to Washington in working out a plan for the integration of Japanese trade with Southeast Asia. According to Borden:

49 Economic Studies Unit, Trade Arrangements Branch, Foreign Trade and Commerce Division, ESS, ‘Japan’s Export Potential With Specific Reference to the Economic Development of the Countries of South and South East Asia’, 15 April 1950, SCAP, 6686(17), ESS(A)04799.

50 Ibid.
General Marquat, head of ESS, reacted somewhat bitterly to the Andrews-West report in March, since it implied that SCAP had overlooked such obvious and beneficial remedies for the Japanese trade dilemma. He said that in the postwar climate of intense Asian nationalism, the theme of the report would provoke anti-Japanese sentiments because it was "economically similar" to the former Japanese "Co-prosperity Sphere." On the other hand, he boasted that the ESS had so successfully promoted Japanese-Southeast Asian trade that it had aroused the "bitter reactions of the British." 51

What SCAP had in mind at this stage was expansion of Japan’s trade with South and Southeast Asia through ‘existing and proposed trade agreements’ on an unsubsidised commercial basis, without dependence on the injection of extra dollars through the proposed US ‘coordinated aid’. In this sense, SCAP’s idea was quite in line with the Dodge Line. If Japan was to pursue this course, it would have to develop its commercial networks on a more multilateral basis without excessive inclination towards dollar-based trade. Since the Overall Payments Agreement and the Sterling Trade Arrangement covered the largest volume of trade among the other bilateral agreements, it was evident that the sterling area would play a significant role in expanding Japanese trade in this direction.

In fact, the provisions of the Overall Payments Agreement contained a mechanism which could lead Japan’s sterling trade towards balance at an increased level. The settlement of trade in such a soft currency as sterling mitigated the unfavourable effect of the worldwide dollar shortage. Since the Sterling Trade Arrangement treated the sterling area countries such as the United Kingdom and its colonies, Australia, New Zealand and India, and later South Africa and Ceylon as a single party in trading with Japan, it minimised the demerits of bilateral trade arrangements which tended to reduce the level of trade. If Japan’s trade with Australia had been regulated by a bilateral trade arrangement, Japan would not have been able to increase its purchases of Australian wool from the depressed level that had existed before the introduction of the Sterling Trade Arrangement, as pointed out in Chapter 3. By late 1949, as discussed in Chapter 5, SCAP had agreed virtually to suspend its right under the Overall Payment Agreement to convert its sterling funds into dollars in order to relieve the sterling countries from anxiety about losing dollars through active purchases of Japanese goods. Moreover, if Japan was allowed to transfer its sterling funds more freely to payments of imports from sterling countries not participating in the

51 Borden, 1984, p.128.
Sterling Trade Arrangement such as Burma and Pakistan, it could expect procurement of a wider range of commodities on a sterling basis. In fact, reflecting these considerations, SCAP persisted in the increased transferability of its sterling balance for facilitating purchases from Burma and Pakistan in the 1950 sterling trade negotiations, as shown in Chapter 6. Hence, the sterling area had significant weight in SCAP’s trade strategy for Japan’s economic self-reliance at this period. The ESS document of April 1950 estimated the share of the sterling countries in Japan’s export to South and Southeast Asia at 45 per cent in 1950, 37 per cent in 1951 and 31 per cent in 1955. The decreasing trend was due to the diminishing share of India which was expected to become more self-sufficient in textile production.  

As the US dollar aid program to Southeast Asia took shape in October 1950, at the height of the Korean War special procurement, the Japanese government moved away from the Dodge Line strategy for economic self-reliance without dependence on US aid and showed increasing interest in the possibility of securing a stable source of extra dollar income through participation in the US-Japan Economic Cooperation Program which aimed to mobilise the Japanese industrial capacity in the US strategy for containment of Communism in Asia.

An English document by the MFA in December 1950, entitled ‘Position of National Economy of Japan in Asia’ revealed government recognition of the importance of Southeast Asian trade for the Japanese economy. Behind this document lay the prospect of ‘drastic retrogression of our Chinese trade’. In justifying the priority which it attached to Southeast Asian trade, the document pointed out factors such as the ‘complementary’ and ‘mutually advantageous’ nature of Japanese capital goods and technology and Southeast Asian raw materials, geographical proximity and lower freight cost, and industrialisation and agricultural modernisation programs in the region. While the tone was supportive of SCAP’s strategy for trade expansion guided by comparative advantage on a commercial basis, the document emphasised ‘capital aid’ from the US, Britain and other interested parties as an essential factor for successful economic development. This was the start of

52 ‘Japan’s Export Potential With Specific Reference to the Economic Development of the Countries of South and South East Asia’.
Japan’s shift towards reliance on US dollar aid to Southeast Asia, and it represented a deviation from the self-reliant trade strategy under the Dodge Line.

In 1951, the US aid program to Southeast Asia was named the US-Japan Economic Cooperation Program. Borden explains its objectives as envisaged by the SCAP and Washington policy makers:

Morrow, Marquat, Dulles, Dodge, the Army, and the State Department all viewed procurement as a way to continue to subsidize Japan’s economy without aid. Until Southeast Asia developed sufficient raw materials supplies and until world currency convertibility was restored, dollar subsidies for Japan were necessary to preserve American markets and ensure that the strong forces in Japan which supported extensive trade with China did not prevail.\(^{54}\)

In May, Marquat officially endorsed Japanese participation in the Economic Cooperation Program with the United States, reporting that Japan was in a good position to export to Southeast Asia capital and consumer goods which America or European manufacturers could not supply, as they were involved in military production. Marquat also suggested that Japan should make an effort to obtain US economic and technological aid. In quick response to the Marquat statement, the Yoshida government endorsed its commitment to cooperation with the United States.\(^{55}\) Japanese government officials still recognised the significance of commercial purchases from the sterling area as well as dollar subsidies, but gave top priority to securing essential raw materials rather than export promotion in sterling trade during the height of the Korean War Boom. In February 1951 the ESB submitted to SCAP Japanese interests in the Economic Cooperation Program, including extension of sterling credit facilities such as pound usance and dollar swap.\(^{56}\)

As the Korean War Boom subsided, when the armistice talks started in Korea in July 1951, it became evident that Japan would sooner or later lose extra dollar earnings under special procurement arrangements. At this point, strong Japanese preference for extra

\(^{54}\) Borden, 1984, p.151.

\(^{55}\) Hiromi Arisawa and Hidezo Inaba, eds., Shiryo Sengo Nijunenshi 2: Keizai [Documents on Japan’s postwar twenty years history, volume 2: Economy], Nihon Hyoronsha, 1966, p.145.

dollar earnings through US aid to the region emerged. The ‘B Document’ which was taken by Japanese delegates to the San Francisco Peace Conference estimated development of Japanese trade up to 1954. It predicted the inevitability of dollar deficits as a result of dollar loans to improve electric power generation facilities which had been the most serious bottleneck in improving Japan’s production capacity. The document recommended two measures to reimburse the dollar deficit, namely, diversion of dollar imports to the sterling or open account areas and allocation of a part of US military and economic aid to Southeast Asia for purchases of Japanese goods.\(^\text{57}\) According to Nakamura, the objective of the ‘B Document’ lay in confirming that the Japanese economy could not achieve self-reliance without US loans and the aid program for economic development of Southeast Asia as well as special procurement.\(^\text{58}\) It was at this stage that the Japanese government made an attempt to shift its central strategy from self-reliant trade expansion through payments and trade arrangements to the dependence on easy dollar earnings through US aid, as discussed in Chapter 7.

Although Japanese government and business circles developed an attitude favouring increased dependence on the US aid program for Southeast Asia in the pursuit of Japan’s economic ‘self-reliance’, the US-Japan Economic Cooperation Program did not, in the event, come to fruition. When the possibility of the US supply of dollars for the region became bleak, Japan had no option but to provide Southeast Asian countries with purchasing power through normal commercial channels with increased Japanese import of commodities, from these countries in order to promote export markets for Japan’s heavy and chemical industrial goods. Around November 1951, the Japanese government changed its stance towards the Economic Cooperation with the United States. In its memorandum to SCAP in February 1952, entitled ‘Establishment of Viable Economy and Promotion of Economic Cooperation’, the Japanese government revealed its intention to seek dollar earnings through the ‘new special procurement’, by committing itself to cooperation with the United States in military production. As will be pointed out in Chapter 9, Japan expected to earn dollars through the US Mutual Security Program encompassing the


\(^{58}\) Nakamura, 1982, p.298.
Southeast Asian region. However, the Mutual Security Program concentrated on defence assistance in military terms, excluding dollar aid for Japan’s economic self-reliance. Thus, emphasis was placed on Japan’s cooperation to further economic development of Southeast Asian countries through the supply of Japanese industrial goods via normal trade channels rather than US aid. The memorandum stated that Japan was prepared to make a positive contribution towards the economic development of the Southeast Asian countries through the increased import of goods and raw materials from the region. This was also expected to improve Japan’s enormous surplus in sterling trade.59

Since these countries were primarily underdeveloped due to social and political instability, they were seriously limited in their ability to finance trade through the supply of commodities for Japan. For example, Japan’s trade with Indonesia, a promising trade partner for Japan, resulted in such a huge Japanese surplus after the conclusion of the dollar-based open account trade and payments arrangements in July 1952, that the Japanese government had to resort to tight regulation of textile exports to Indonesia in August 1954.60 It was found that Indonesia’s domestic regulations and the monopoly by the Dutch commercial firms and domestic shipping services caused the prices of its export commodities such as rubber and copra to rise.61

In contrast, the sterling area countries in Southeast and South Asia could utilise purchasing power earned by the large supply capacity of Australia under the Overall Payments Agreement. More significantly, the dollar convertibility clause was removed in the new Sterling Payments Agreement of August 1951. Freed from concern about the loss of dollars, the sterling area countries in Southeast and South Asia could feel more relaxed about increasing their purchases from Japan. The range of uses of Japan’s sterling surplus was also widened as sterling became transferable to purchases from all the sterling area countries such as Burma and Pakistan which had not been covered by the Sterling Trade

59 Quoted in Nakamura, 1982, pp.298-300.
60 Anonymous, ‘Tai-Indonesia Keizai Danko no Kiki: Kajo Yushutsu Mondai to Baisho Mikaietsu no Karamaiai’ [Deterioration of economic relations with Indonesia: Excessive trade surplus and reparation problems], *Ekonomisto*, vol.32, no.32, 7 August 1954, pp.34-39. There was suspicion in Japan that the Indonesian government intended to settle its accumulated trade deficits through Japanese reparation.
61 Heitaro Inagaki, Member of the House of Councilors and Chairman of the Yokoham Rubber, ‘Tonan-a Shokoku ni taisuru Nihon no Boeki Taisaku ni tsuite’ [On Japanese trade policy towards Southeast Asia], *Keizai Jidai*, vol.18, no.1, January 1953, pp.47-50. The article is the record of Inagaki’s address on his return home as a leader of the Japanese government goodwill mission sent to Southeast Asian countries.
Arrangements but by individual bilateral arrangements. In fact, contrary to the SCAP prediction of April 1950 that the share of the sterling countries in South and Southeast Asia in Japan’s total export to the region would decline from 45 per cent in 1950 to 31 per cent in 1955, the share was maintained well above 40 per cent in 1955.

On the other hand, the exports to the non-dollar, non-sterling countries such as Indonesia, the Phillipines and Thailand did not show as great an increase as expected. Since the trading activities with these countries still remained unimpressive in the early 1960s, the MFA did not hide its pessimism about the future of trade with these Southeast Asian countries in the early 1960s. Pointing out the diminishing Japanese imports from Southeast Asia, the MFA asserted in the 1960 issue of its Diplomatic Blue Paper:

As this tendency of imbalanced trade ... will not be solved unless economic development of the less developed countries makes progress, our trade with the Southeast Asian region will be forced to decline under the present situation. Hence we have no way to increase trade with the region but to develop Southeast Asian commodities which Japan can import or to provide these countries with purchasing power through some measures.62

In order to develop trade relations with the non-sterling countries in Southeast Asia, Japan had to wait until the establishment of special commercial ties such as the reparation agreements in the late 1950s.63

THE SIGNIFICANCE OF BILATERAL TRADE AND PAYMENTS AGREEMENTS

The failure to generate dollar earnings from the US-Japan Economic Cooperation Program meant that Japan had to depend on bilateral trade and payments agreements for the expansion of trade in the period of worldwide dollar shortage. Japan had to return to a trade strategy based on a more multilateral basis under the Dodge Line. In fact, the idea to


63 For Japan’s reparation agreements with the Southeast Asian countries, see Hagiwara, 1972, chapter 2 and Hideo Kobayashi, Sengo Nihon Shihonshugi to ‘Higashi Ajia Keizaiken’ [Postwar Japanese capitalism and ‘East Asia economic sphere’], Ochanomizu Shobo, 1983, chapter 1.
expand Japan's trade through a network of trade arrangements derived from the days of the Dodge Line. Soon after the Dodge Line was implemented, SCAP invited several advisors to make recommendations for measures to be introduced for the recovery of Japanese trade. In September 1949, SCAP received a visit by the US Foreign Trade Advisory Commission led by Ormond Freile from the office of the Assistant Secretary of the Army. Freile supported export promotion on an unsubsidised commercial basis, by recommending full restoration of private import and export trade and abolition of export floor prices.64 Fearful of a recurrence of Japan's social dumping of the 1930s with the removal of controls on export prices, Britain suggested the promotion of Chinese trade 'as the logical outlet for Japan's export'.65 In fact, Britain had lost its eagerness to expand the overall level of Japan's sterling trade by early 1950 although the other sterling countries desired the growth of Japanese trade, as will be explained in Chapter 6.

Soon after Freile made his recommendation, the Director General of the Joint Export-Import Agency for Germany, William Logan, visited Japan to advise on trade expansion through decontrol. The Logan Mission made significant recommendations on trade policy which should 'work as a permanent "lever" for the implementation of Japan's economic stabilisation plan'.66 His recommendations included, simplification of import and export procedures, transfer of exchange controls to private banks, expansion of bilateral trade and payments agreements, and export promotion through increased import.67 In order to achieve an expansion of trade under the Dodge Line, Logan proposed to increase Japanese exports to the non-dollar areas where Japanese industrial goods could compete well on a commercial basis. Lack of purchasing power in these areas would be solved by expansion of Japan's imports of their commodities, the so-called 'import first method'. For this purpose, Logan recommended development of a network of bilateral trade and payments agreements. In order to minimise the tendency of bilateral agreements to balance trade at a lower level, he proposed provisions in the arrangements to allow the parties to 'swing' a

64 Ormond Freile, 'Recommendations and Findings of the Advisory Mission for International Trade', October 1949, SCAP, 5978(1), ESS(C)00078.
65 Borden, 1984, p.96.
certain amount of imbalance left at the end of the stipulated period into the following period without requiring settlement of the whole balance in cash.  

The Logan concept would culminate in diversion of Japan’s import trade from the dollar area to the non-dollar area. By thus saving its dollar expenditure, Japan could expect to increase dollar purchases of raw materials for export goods such as raw cotton. This was a significant change from previous SCAP trade policy which gave top priority to earning dollars through export to the dollar area, as discussed in Chapter 4. SCAP immediately put Logan’s recommendations into practice. Soon after his mission, it finalised the negotiations for the Sterling Trade Arrangement for the year 1949/50. The Arrangement was revised to allow expansion of sterling trade, as discussed in Chapter 5.

Both the Freile mission and the Logan Plan did ultimately contribute to the Sterling Trade Arrangement, although the Freile mission was not receptive to development of bilateral trade and payments agreements pointing out their discriminatory effects on the dollar area countries such as the United States and Canada. However, the mission recommended the abolition of the trade plans attached to most of SCAP’s bilateral agreements and the establishment of provisions in the arrangements for consultation between SCAP and its counterparts ‘with the view to transferring credits to third countries’ in order to remove the necessity of balancing trade. This proposal was based on the same stance as Logan’s. While the Trade Plan was greatly simplified in the Sterling Trade Arrangements from 1949 in late 1949, the SCAP officials came to emphasise transferability of sterling funds to purchases from the sterling countries not participating in the Sterling Trade Arrangements such as rice from Burma and raw cotton from Pakistan and Egypt. Although the sterling side strongly resisted the introduction of full transferability, it agreed to permit diversion of a certain amount of Japan’s sterling funds towards trade with the non-participants, as discussed in Chapters 5 and 6. In this sense, the Sterling Arrangements also reflected Freile’s recommendations.

68 Ibid., p.412.
70 John F. Shaw, Department of State, ‘Commercial Arrangements for Conducting the Foreign Trade of Occupied Japan’, October 1949, SCAP, 5978(1), ESS(C)00078. Shaw’s document was attached to Freile’s report.
The Logan plan was based on the assumption that Japan’s importation of raw materials for export goods should be financed by US dollar aid. Since the Economic Cooperation Program for extra dollar income through ‘coordinated aid’ to Southeast Asia had not materialised, Japan had a more pressing need to divert its supply to sterling and other non-dollar sources, in order to save dollars in imports. In this respect, Australia’s supply capacity played a significant role as an alternative source of foodstuffs such as wheat and barley. The conclusion of the long-term purchase agreement for barley from Australia in November 1952 illustrated the Japanese attempt to shift the purchase of foodstuffs to non-dollar sources of supply, as discussed in Chapter 8.

Although the Logan plan gave hope to the Japanese government and business circles which had been concerned about stagnation of exports caused by the devaluation of the pound sterling in September 1949, it also created scepticism about whether Logan’s success in bringing recovery to West German trade could be repeated in Japan as well. Compared with West Germany, Japan would have to face four handicaps. Firstly, West Germany enjoyed generous US aid under the Government Appropriation for Relief in Occupied Areas (GARIOA) as well as the Marshall Plan. Secondly, German machinery had strong international competitiveness due to its superior quality. Thirdly, West Germany could count on buoyant market conditions in Western Europe even though it had lost its traditional East European markets. Fourthly, West German commercial firms could maintain their strength while the dissolution of corporate oligopoly, namely zaibatsu kaitai, left hundreds of small less powerful firms in Japan in place of the prewar giant commercial firms.71 Of these handicaps, Japan could only expect to overcome through its own efforts the second and the fourth. Accordingly, industrial rationalisation and export promotion through revitalisation of commercial firms became important issues in Japanese trade and industrial policy during the 1950s.72

Further pessimism prevailed over the Logan plan. The editorial of the economic journal Daiyamondo argued:

72 Taxation measures such as tax rebates for opening overseas branches of commercial firms became one of the most important measures for export promotion from around 1953. Shiraishi, 1983, pp.123-124.
Thus unless a drastic measure is adopted to liberalise international conversion of currencies, the world-wide crisis will never be overcome merely by introduction of barter systems. The trade arrangement with the sterling area which has recently been concluded reveals this situation vividly. That is, under the current trade arrangement, the imports from the sterling area doubled last year's, but exports remained the same. Because of that, Japan recorded a ten million pound deficit, which has worked to offset last year's surplus. In view of this, it seems premature to assume that a barter system will immediately lead to export promotion. 73

This argument shares the pessimism of the advocates of domestic development. It reflects strong doubt about the feasibility of a free multilateral trade system under the worldwide dollar shortage. The editorial was right in suggesting that export promotion through increased imports rested on the goodwill of Japan's trade partners to relax import licensing. Hence, the diplomatic approaches for minimisation of trade barriers became another significant element in Japanese trade strategy during the 1950s which was initiated by the Logan plan. In this sense, Japan's economic diplomacy in the 1950s was a logical development, as Japanese export goods were often subject to discriminatory treatment in import licensing and later under the GATT rules, especially among the sterling area countries.

While Logan recommended expansion of trade on a commercial basis and removal of domestic controls on trade, it does not follow that Japanese trade was drastically decontrolled. On the contrary, tight exchange controls remained a significant determinant of Japanese trade in the 1950s. Soon after Logan left Japan in October 1949, Jan A. Mladek and Ernest A. Wichin of the IMF visited Japan to give advice on a proposed system for Japan's foreign exchange control. Following their recommendations, the Foreign Exchange and Foreign Exchange Control Law was enacted in December 1949. The law was designed to impose control on the whole range of activities related to foreign exchange and trade to maintain a sound balance in the payments position. 74 Taking Logan's advice, the foreign exchange budget allocation system was also established to support management of foreign exchanges under the law. Thus Logan's idea was incorporated within the

---

74 Inuta, 1976, p.54.
framework of the tight exchange control system proposed by Mladek and Wichin.\textsuperscript{75} In fact, Japan’s sterling trade after the peace settlement developed in an environment in which there was tension between considerations emphasising expansion of trade volumes on the one hand and sound exchange controls on the other, as revealed in Chapter 8.

The foreign exchange allocation system tended to give preference to sterling and other non-dollar trade to save dollar expenditure, so sterling trade became less constrained under normal conditions. However, in the case of a recurrent deterioration of the balance of payments, sterling trade became subject to foreign exchange restrictions under the system. Such circumstances affected the commercial interests of the main sterling suppliers, namely Australia, as shown in Chapter 9. It worked to strengthen Japan’s negotiating position in its diplomatic approaches to open Australian markets: Canberra drastically relaxed its tight discriminatory import licensing after November 1954.

In the early postwar period, Japan set out a strategy to re-establish the traditional trade network with East Asia centred on export of Japanese capital goods and imports of raw materials and foodstuffs from the Chinese continent. However, the austere policy prescribed by the Dodge Line exposed the uncompetitive nature of the Japanese heavy and chemical industries. The embargo introduced at the height of the Korean War completely shattered the Japanese aspiration for resumption of Chinese trade. Although Japan had to expect export earnings from the competitive light industrial sector, the tight exchange controls under the worldwide dollar shortage placed severe fetters on Japan’s attempts to promote exports. These bleak international circumstances created pessimism over the future of Japanese trade, which led to ideas stressing the development of Japan’s domestic resources rather than reliance on foreign trade. At the same time, Japanese government and business circles put excessive expectation on US ‘coordinated aid’ for the development of Southeast Asian trade, as a stopgap for the reduced US aid for Japan and the decline in the Korean War special procurement.

As the US-Japan Economic Cooperation Program proved fruitless, Japan had no alternative but to pursue a strategy of economic self-reliance through trade expansion on a normal commercial basis through more multilateral channels, as prescribed by the Dodge Line. Under this strategy the sterling area played a leading role, because the sterling trade

\textsuperscript{75} Inoya, 1950, p.17.
and payments agreements provided a flexible mechanism to balance Japan’s overall sterling trade at a maximum level. Because it had the largest supply capacity in the sterling area, Australia assumed the role not only of helping divert Japan’s procurement from the dollar area but also of providing the other sterling countries with purchasing power for Japanese goods.

As sterling trade increased its significance, Japan faced a pressing need to liberalise trade barriers in the sterling area countries which tended to introduce tight import restrictions against Japanese goods in order to safeguard their balance of payments and sustain the value of the pound sterling. Hence, the sterling area also emerged as an important target for Japan’s economic diplomacy to open the sterling markets for Japanese exports. Since Canberra perceived the increasing significance of Japan as an outlet of primary commodities, Australia also took initiatives to respond positively to Japanese diplomatic approaches to relax Australia’s tight exchange controls.

The following chapters explore the management of trade under the sterling payments and trade agreements in detail and reveal the increasing priority which SCAP and the Japanese government came to give to trade with the sterling area countries, especially with Australia. It starts with the early postwar period when top priority was given to saving dollars, at the expense of expansion of Japan’s sterling trade and purchases of Australian wool.
3 Japan's Wool Procurement System during the Occupation Period

Wool had been the central commodity in Australia-Japan trade during the prewar period. Australia had always been the largest supplier of wool to Japan. Before the mid 1930s, Australia's share of the wool market amounted to approximately ninety per cent on average. The dependence of the Japanese woollen mills on Australian wool was based on the fact that Australian merino types were suitable for production of worsted fabrics used for the kimono, so the Japanese spindles, cards and looms were manufactured to fit Australian wool. As a result, Japan had become the second largest buyer of Australian wool by 1935 when Japan's share reached almost one-third of total Australian wool exports. The Trade Diversion dispute of 1936 and Japan's shift to a wartime economy reduced its demand for Australian wool, and the outbreak of the Pacific War terminated any exchange of commodities between the two nations.

DIVERSION OF WOOL IMPORTS IN POSTWAR JAPAN

Wool regained its position as the most important commodity when Australia-Japan trade was resumed in 1947, and wool remained on top until the mid 1960s when trade in minerals and resources took over. In the postwar period, the Japanese wool manufacturing industry resumed production utilising the prewar facilities and equipment, and Australian merino types were favoured for the production of worsted fabrics used for Western style apparel. Despite this, Australia's share in Japan's wool imports never reached its prewar level,

1 Ito, 1957, p.97.
2 For the Australia-Japan Trade Diversion Dispute, see D.C.S. Sissons, 'Manchester v. Japan: The Imperial Background of the Australian Trade Diversion Dispute with Japan 1936', Australian Outlook, vol.30, no.3, December 1976 and Teruhiko Fukushima, 'Boeki Tenkan Seisaku to Nichi-Go Boeki Funso, 1936-nen: Osutoraria Seifu no Nihonsei Orimono ni taisuru Kanzei Hikiage wo Megutte' [The 1936 Australia-Japan Trade Diversion Dispute: The Considerations over Australia's Tariff Increases against Japanese Textiles], Nichi-Go Kankei no Shiteki Tenkai (Kokusai Seiji) [The Historical Evolution of Australia-Japan relations (International Relations)], no.68, 1981.
3 Ito, 1957, p.97.
staying around 70 per cent on average. Instead, other suppliers, especially South America, recorded a remarkable increase in their shares. Japan’s postwar wool procurement became relatively diversified compared with the prewar period.

The trade statistics show that the diversification of wool supply was evident from the beginning of the postwar period when wool procurement was controlled by the Japanese occupation authority. This chapter examines SCAP’s wool procurement policy before the introduction of a private wool import system in January 1950, in an attempt to show how Japan’s lack of a means for financing trade affected its wool purchases from the most coveted source, Australia. The predicament forced SCAP to seek anomalous trading methods for wool procurement and diversify the purchase of wool to non-Australian suppliers.

REHABILITATION PLAN FOR THE JAPANESE WOOL TEXTILE INDUSTRY

The production capacity of the wool manufacturing industry was considerably reduced as a result of wartime damage and the forcible scrapping of equipment and facilities for military production by the government. The percentage of total available capacity in 1945 against the figures of 1939 were 24 per cent in worsted spindles, 57 per cent in woollen cards and 33 per cent in textile looms respectively. Since wool manufacturing matched the occupation goals of demilitarising Japan, SCAP encouraged the resumption of production from the outset. In ‘A Program for the Japanese Woolen Industry’ of August 1947, SCAP set up an interim target to more than double the production capacity of 1945. Together with the objective of supplying the minimum amount of clothing for the Japanese people to prevent ‘disease and unrest’ and to provide a solution to the massive unemployment problem, SCAP emphasised the potential of the industry to become an excellent source of foreign exchange in view of the huge demand for wool manufactured goods in the Far East which had traditionally been a good market for Japanese wool fabrics in the prewar period.

---

7 F.E. Pickelle, Deputy Chief, Foreign Trade Division, ESS, to W.F. Marquat, Chief, ESS, ‘Importation of Raw Wool’, 6 January 1947, SCAP, 6090(3), ESS(D)00806.
SCAP’s emphasis on the rehabilitation of the Japanese wool manufacturing industry indicates that there was a growing demand for imported raw wool in Japan. Financial constraints, however, made it difficult to implement wool procurement.

Since Japan still had some wool stocks at the beginning of the occupation, SCAP initially directed the Japanese industry to use up these stocks for the moment. However, due to the relatively high operation rate approved by SCAP, these stocks declined so quickly that the Japanese government had to make an urgent plea to SCAP to import raw wool in early 1946. While emphasising the urgent need for raw wool, however, the Japanese government admitted the necessity to give a higher priority to the import of foodstuffs than wool. Thus with limited funds available, there was no alternative but to finance the importation of wool through the export of finished goods. Because exports of the Japanese wool manufacturing industry had earned only about 12 per cent of the cost of imported raw wool in the prewar period, the Exports and Imports Division of the ESS, which was responsible for supervising trading activities, rejected the Japanese application for wool to be imported and suggested manufacturing fabrics of a lower wool content.

At the beginning of 1947, it seemed imminent that raw wool stocks would soon run out. In this event, there would be no way but to shutdown the Japanese mills. Concerned about the ill effects of such a shutdown on the whole Japanese economy, the Foreign Trade and Commerce Division which was reorganised from the Exports and Imports Division, came to advocate strongly the resumption of wool imports, either by asking the British Commonwealth of Nations to extend credit to Japan or by making use of sterling or even dollars in the SCAP Trust Fund Account.

---

8 Kanematsu Yomo Nempo, 1949, pp.73-74.
10 Import-Export Division, ESS, ‘I.J.G. Application for the Importation of Wool’, 12 March 1946, SCAP, 6782(7), ESS(A)05903. While the writer of this document describe the Division’s name as the ‘Import-Export Division’, SCAP’s official record describes it as the ‘Exports and Imports Division’. SCAP, History of the Nonmilitary Activities of the Occupation of Japan, vol.2, Administration of the Occupation, p.60. In order to avoid confusion, I will use the ‘Exports and Imports Division’ in the main arguments, while leaving the title attached to the original document in showing the sources in the footnotes.
11 Pickelle to Marquat, 6 January 1947, ibid. The SCAP Trust Fund Account was originally opened to save the proceeds of Japanese exports to US which was dealt exclusively by the United States Commercial Corporation. Hiroshi Nishikawa, ‘Boeki no Jittai to Tsusho Seisaku’ [Realities of international trade and policy], Tshushosangyosho Tsusho Sangyo Seisakushi Hensan linkai [Committee for the history of international trade policy, MITI], ed., Tsusho Sangyo Seisakushi, Dai-4-kan: Dai-1-ki, 57
JAPAN'S FIRST APPROACH TO AUSTRALIA FOR WOOL PROCUREMENT

In 1947, the Foreign Trade and Commerce Division began to examine various methods of financing the procurement of raw wool. In January, Frank Pickelle, then Deputy Chief (later Chief) of the Division presented to the Chief of the ESS, William F. Marquat, a proposal to purchase 30,000 bales of raw wool before March, and a further 90,000 bales before December making a total of 120,000 bales altogether for the 1947 calendar year. At first, it was planned to finance the purchase of the wool mainly from the credit expected to accrue from export sales of existing stocks of wool fabrics and prospective future products and, if this was insufficient, from the SCAP Trust Fund Account. However, financing through the small credit balance in the SCAP Trust Fund Account was ruled out since the Fund had to be spent on the procurement of essential raw materials of higher priority than wool such as cotton which was only available from the United State in dollars. Moreover, the British Commonwealth of Nations was least interested in the SCAP proposal of credit extension to Japan, though SCAP argued that this would benefit the British countries such as Hong Kong, Malaya and India which seemed to have a large demand for Japanese wool manufactured goods.

With no other feasible means of financing wool procurements, SCAP directly approached Japan's traditional wool supplier, Australia, with the Pickelle plan which proposed to finance wool imports by Japan's standing credits of approximately $500,000 from the export of raw silk to Australia in the previous year. In fact, SCAP had previously approached Australia with a similar proposal in 1946. It is necessary at this stage to examine the discussions between Australia and Japan in the second half of 1946, in order to comprehend fully the significance of this silk-wool barter proposal.

When S.F. Lynch of the Australian Department of External Affairs visited Japan to investigate the prospects for trade, in July 1946, SCAP asked him to finance a shipment of wool to Japan by sending Australia back some of the finished goods in return. This proposal was rejected because this system totally deprived Australia of control over how its

---

*Sengo Fukkoki*(3) [The history of international trade and industry policy, volume 4: First period for postwar restoration no.3], Tsusho Sangyo Chosakai, 1990, p.142.

12 Pickelle to Marquat, 'Importation of Raw Wool', 14 January 1947, SCAP, 6787(7), ESS(A)05903.

13 Radiogram from SCAP to Washington, C-68950, 10 January 1947, SCAP, 6090(3), ESS(D)00806.
facing the forthcoming election in September, to be seen to be lending a hand to its former enemy. After the Labor government was reelected, Australia made an offer for wool sales to show its conciliatory stance towards SCAP’s aim to rehabilitate the Japanese economy centred on the textile industry, which would have less potential to stimulate Japan’s remilitarisation.14

In December 1946, E.E. Ward, representing W. MacMahon Ball, the British Commonwealth Representative in Tokyo, presented Australia’s reply to Peter McDermott, then chief of the Foreign Trade and Commerce Division. Australia rejected the proposed wool processing system as well as the extension of credit on the grounds that it had also refused raw wool sales on a credit basis to France and China. Instead, Ward insisted that Japanese purchases of raw wool from Australia should be made on a cash basis either in dollars or sterling.15 In view of the lower priority given to the procurement of raw wool, Australia’s proposal for cash payments was quite unacceptable to SCAP. Furthermore, Ward’s attitude seems to have offended the SCAP officials. According to the story told by one of the ESS officials to Hugh Wrigley, the Australian Commercial Counsellor in Tokyo in December 1947, in submitting the Australian proposal, Ward demanded dollars for wool and in return McDermott equally definitely demanded dollars for all Australian purchases from Japan.16 The rumour about the claims by Ward and McDermott seems to have been without foundation. McDermott did show a strong attachment to dollar earnings through the conversion of SCAP’s sterling funds, and by so doing made the sterling area sceptical about SCAP’s intention to expand Japan’s sterling trade in the forthcoming 1948/49 trade negotiations between SCAP and the sterling area countries, as discussed in the following chapter. Moreover, the US Department of State tried to insert a provision to enable SCAP to convert its sterling funds at any time when dollars were required to repay debts incurred

14 Rix, 1986, pp.58-60.
15 Foreign Trade Division, ‘Memorandum for Record’, 2 January 1947, SCAP, 6090(3), ESS(D)00806. SCAP’s official record states that the Exports and Imports Division was reorganised into the ‘Foreign Trade and Commerce Division’ sometime in late 1946, and does not refer to the naming of the ‘Foreign Trade Division’, as above. SCAP, History of the Nonmilitary Activities of the Occupation of Japan, vol.2, p.60. The officials used the ‘Foreign Trade Division’ throughout 1947 until mid 1948. when they began to use both ‘Foreign Trade’ and ‘Foreign Trade and Commerce’ mixedly. Again, I will use the ‘Foreign Trade and Commerce Division’ in my main arguments, while the leaving the title used in the original documents as it is in showing sources in the footnotes.
16 Hugh Wrigley, Australian Commercial Counsellor in Tokyo, to J.A. Tonkin, Department of Commerce and Agriculture (DCA), Canberra, 7 December 1947, AA, A606, R40/1/42. ‘AA’ denotes that the cited documents are located in the Australian Archives Office in Canberra.
within the sterling area, in the Interim Sterling Payments Agreement of November 1947, which is to be discussed later. The provision was proposed in the light of a previous condition that Japan was required to make payment in dollars for the purchases of raw wool from Australia.\(^{(17)}\)

Thus, in reply to Australia’s cash payment proposal, SCAP adopted a firmer attitude in January 1947. It submitted its wool barter plan: that 30,000 bales of Australian wool be financed by the standing credit from raw silk exports and from the SCAP Trust Fund Account. This time SCAP attached the warning that if the plan was not accepted, Japan’s source of raw wool would be diverted from Australia to the United States causing ‘the loss to Australia of one of her best prewar customers’. At the same time, SCAP claimed the right of the Japanese government to select the type and quality of wool to be purchased from Australia.\(^{(18)}\) SCAP’s readiness to spend cash from the Trust Fund showed its determination to secure the supply of the types of Australian wool demanded by the Japanese consumers.

In reply, Australia insisted on selecting raw wool for Japan ‘from stocks not in demand by other perspective buyers’.\(^{(19)}\) The Australian wool industry persisted in the argument that the finer types of wool should only be sold at auction. Since these finer types were sold at higher prices in the Australian auctions reflecting keen competition under the postwar sellers’ market conditions, it was virtually impossible for Japan to procure finer qualities from Australia in the light of the limited funds available to SCAP.\(^{(20)}\)

The coarse types of wool offered by Australia would never have been suitable for the production of exportable wool fabrics. After all SCAP could only issue an order for 7,350 bales of disposable Australian wool in return for Japan’s standing credit. SCAP did not hide its frustration to Washington:

\(^{(17)}\) Foreign Trade Division, ‘Memorandum for Record’, 16 January 1948, SCAP, 6092(10), ESS(B)00938.
\(^{(18)}\) Marquat to W. Macmahon Ball, British Commonwealth Member, Allied Council for Japan, ‘Importation of Wool from Australia’, 17 January 1947, SCAP, 6090(3), ESS(D)00806.
\(^{(19)}\) Ball to Marquat, ‘Importation of Wool from Australia’, 8 February 1947, \textit{ibid}.
\(^{(20)}\) Rix explains that the Australian Prime Minister, Ben Chifley and his cabinet had basically accepted the SCAP proposal. However, the External Affairs Minister, H.V. Evatt, who was in Tokyo at that time, turned down the proposal, giving as his reasons, ‘further piecemeal settlement of Japan issues before a Peace Treaty, strengthening of Japan’s economy without regard to Australia’s security, possible pressure for entry of Japanese nationals to Australia, and public outcry over supply of raw materials to Japan so soon after the end of the war’. Rix, 1986, p.60.
When the 7,481 bales of wool ordered were shipped to Yokkaichi in Mie Prefecture on 8 June 1948, the whole content was made up of extremely coarse types. One Japanese wool manufacturer remembered his impression at the inspection of the content:

We remember the occasion when the first postwar shipment of 7,400 bales arrived. We felt genuine indignation against the Australian government. Almost all of them were of extremely low quality. No worsted types which we had requested were included. I had a feeling that they pushed on us only the types which almost looked like the rubbish of their wartime stocks.22

Thus the chance to develop an extensive wool purchase programme between Australia and SCAP was lost. Although SCAP’s request might have been extravagant in view of the postwar sellers’ market, Australia’s flat refusal led SCAP to an alternative means to finance wool procurement, to maintain the productive operation of the Japanese wool manufacturing industry.

SEARCH FOR A MEANS OF WOOL PROCUREMENT

Faced with Australia’s firm policy to sell wool only at auction, SCAP became attracted to the proposals for processing raw wool received from US firms.23 In April 1947, a number of US firms approached the occupation authority to present offers.24 However, it proved quite difficult to reach any agreement over the provisions of processing contracts. While various methods of payment for processing were raised, SCAP preferred contracts on a credit basis under which private traders would supply raw wool against future deliveries of wool textiles, in order to minimise SCAP’s control and supervision of the Japanese wool manufacturing industry.

22 Yuzo Usami, et.al., ‘Yomo Kogyo no Fukko wo meguru Omoide’ [Memory of the restoration of the wool industry], Nihon Yomo Sangyo Kyogikai [Japan Council of Wool Industries], Yomo Sangyo Sengo 20-nen no Ayumi [20 years history of the wool industry], 1967, p.43.
24 Foreign Trade Division, ‘Memorandum for Record’, 12 April 1947, SCAP, 6030(3), ESS(D)00805.
industry. On the other hand, many US firms wanted contracts on commission whereby the firms would pay predetermined spinning fees for processing. They were familiar with this system which had been used in similar types of processing contracts with European manufacturers.

SCAP even started to consider seriously the possibility of accepting dearer US wool to a value of $1,000,000 held by the Commodity Credit Corporation (CCC). Later, however, Tokyo found that the US Department of Agriculture would retain the finer types of wool for the US domestic manufacturers, and the types of wool offered by the CCC were available from other suppliers at lower prices. This plan was deferred pending the development of processing programs.

SCAP's response to the CCC offer illustrates its stance on wool procurement. The continued or increased operation of the Japanese wool manufacturing industry was desirable because it was consistent with the occupation aim of economic recovery to maintain Japan's social stability. But SCAP could not afford to spare its limited funds for raw wool because this would affect the import of far more critical foodstuffs and raw materials such as cotton. Hence purchases of raw wool had to be financed by export proceeds. However, Japan needed fine quality wool to manufacture exportable fabrics. This was why SCAP insisted on reserving Japan's right to select the types of wool to be purchased. The problem was that these types of wool were most desired by other consumer countries which could offer better deals to wool suppliers than Japan. The best way to ensure immediate procurement of raw wool of Japan's own choice was to make cash payments.

In July 1947, it became evident that existing stocks of greasy wool held by the Japanese mills had been 'virtually exhausted'. SCAP sent Washington a firm request for wool worth $1,000,000 which was equivalent to 6,000 to 9,000 bales. Payments would be made from the SCAP Trust Fund Account. A month later Tokyo received five bids from US commercial firms, two bids for Australian wool and three for South American.

25 Radiogram from SCAP to Washington, C-53210, 8 June 1947, SCAP, 6090(4), ESS(D)00808.
26 'Teleconference' [between SCAP officials and Washington officials], 16 August 1947, SCAP, 6709(38), ESS(C)05439.
27 Radiogram from SCAP to Washington, C-54018, 14 July 1947, SCAP, 6090(4), ESS(D)00808.
28 Foreign Trade Division, 'Memorandum for Record', 19 August 1947, SCAP, ibid.
29 Radiogram from SCAP to Washington, C-54018, 14 July 1947, ibid.
30 Radiogram from Washington to SCAP, WAR 84873, 24 August 1947, ibid.
Without hesitation, SCAP picked up a bid for 729 bales of Australian wool. The selection was not made because Australian wool was particularly preferred to South American but because it was the only bid offering immediate shipment which was desperately needed to keep the Japanese mills operating.\(^\text{31}\)

Although this amount was far from adequate to meet the immediate predicament in the Japanese industry, SCAP accepted no further bids from US firms. A bright opportunity emerged in negotiations with the Mission of the Australian Wool Realisation Commission, which supervised postwar sales of Australia’s surplus wool. Informed via the US State Department of SCAP’s frustration with Australia’s firm stance against wool sales to Japan, Canberra agreed to sales of some better types of wool.\(^\text{32}\) At the early stages of the negotiations in Tokyo, in August 1947, SCAP officials gained the impression that ‘principal previous obstacles to business may be virtually eliminated’. In the light of these developments, it was considered advantageous not to rely on bids from private firms because firstly this could cause a situation whereby more than two firms might be bidding against each other to buy wool for Japan at the same auction, and secondly, outright purchases through an agent appointed by SCAP would give ‘greater latitude for Japan’.\(^\text{33}\) SCAP was also informed by Washington that Australia had changed its policy to permit shipment of high grade merino wool to Japan, but at the same time Japan was required to include a certain percentage of a low quality crossbred wool in its bid.\(^\text{34}\)

Despite this, the Mission of the Australian Realisation Commission did not allay SCAP’s suspicion that Australia was uncooperative in supplying wool to Japan. SCAP understood Australia’s policy that wool procurement should be made at auctions using brokers, and duly presented a list of twelve brokers identified by the Japanese wool traders. However, SCAP found difficulty in accepting the Mission’s claim that payment should be made in cash, which SCAP understood to be dollars, on terms similar to regular private trade. It insisted that purchases of Australian wool should be financed in the currency used

\(^{31}\) Foreign Trade Division, ‘Memorandum for Record’, 29 August 1947, \textit{ibid.}

\(^{32}\) Rix, 1986, p.61.

\(^{33}\) ‘Teleconference’, 16 August 1947, SCAP, 6090(4), ESS(D)00808.

\(^{34}\) Foreign Trade Division, ‘Memorandum for Record’, 19 August 1947, \textit{ibid.}
by the markets for Japanese wool textile exports.\textsuperscript{35} The problem of financing of the trade had to be settled before Australian wool could be shipped to Japan.

**PROBLEMS OF FINANCING WOOL PROCUREMENT FROM AUSTRALIA**

After the Australian wool mission left Japan in September, the Foreign Trade and Commerce Division began to lose its desire to procure wool in the Australian market. The Division found the prices at Australian auctions to be too high, and the type and quality offered by the Mission limited. It even seemed conceivable that 'rigging of the market and combined actions against the Japanese purchasing' might happen. Australia's insistence on controlling the types of wool to be used in Japan was regarded as 'exercising unfair discrimination against Japan'. Hence, it was recommended that the most scrupulous and 'careful analysis' had to be made when purchasing wool at Australian auctions, furthermore, increased effort should be made to explore wool of suitable quality at lower prices from alternative sources of supply.\textsuperscript{36}

While the procurement of Australian wool again faced a deadlock, negotiations were proceeding between the Foreign Trade and Commerce Division and the Government of Hong Kong for a sort of wool processing contract. In late September, the Division proposed to procure wool through a Hong Kong firm named Scott and English in return for the future export of Japanese textiles and general merchandise to the Hong Kong Government.\textsuperscript{37} Apart from the fact that the firm had been long acquainted with SCAP through its Tokyo offices, Scott and English was favoured because it had been SCAP's largest customer in wool products and had the capacity to 'readily absorb the finished products in SCAP's programme'.\textsuperscript{38} By late November, Scott and English had concluded a contract to purchase, on SCAP's behalf at the Australian auctions, 50,000 bales of Australian wool which was to be financed through sterling credit to be provided by the

\textsuperscript{35} Radiogram from SCAP to Washington, C-55768, 27 September 1947, SCAP, 6090(4), ESS(D)00807; Pickelle to Wrigley, 'Purchases of Australian Wool', 20 September 1947, SCAP, 6709(38), ESS(C)05438.  
\textsuperscript{36} Foreign Trade Division, 'Memorandum for Record', 20 September 1947, \textit{ibid}.  
\textsuperscript{37} Pickelle to Marquat, 29 September 1947, SCAP, 6709(38), ESS(C)05438.  
\textsuperscript{38} Max B. Laupheimer, Chief of Wool Procurement, Foreign Trade and Commerce Division, to Australian Wool Realisation Commission, 'Scott and English', 14 April 1948, SCAP, 6747(19), ESS(A)05537.
Hong Kong and Shanghai Bank. The Hong Kong firm, however, faced strong objection from the Australian government which wished to receive payments for its wool export directly from SCAP through a channel to be established by the ongoing Anglo-American negotiations for Japan's sterling trade.

On 15 August 1947, the resumption of Japanese private trade was permitted within a limited scope. While SCAP was to maintain tight controls on trade, especially importation and foreign currency holdings, Japanese private exporters were allowed to enter into negotiations for deals directly with foreign private buyers. It gave trading opportunities to the British Commonwealth countries especially those in East Asia, which had revealed a strong appetite for Japanese manufactured goods, particularly cotton textiles. On 20 August 1947, however, Britain suspended convertibility of the pound sterling into dollars due to the continuing dollar drain. Since the United Kingdom and the Commonwealth countries had to save dollars wherever possible to reimburse their dollar liabilities, they lost the financial means to purchase most demanded Japanese textiles. The British government duly entered into negotiations with the US administration on financial facilities for reopening private trade with Japan.

The Interim Sterling Payments Agreement was concluded between SCAP and the sterling area countries on 14 November 1947. Under the Interim Agreement, Japan's private trade with the United Kingdom and its colonies, Australia and New Zealand, was to be conducted on a sterling basis through SCAP's account opened with the Bank of England. SCAP had the right to convert its sterling surplus accrued from trading activities into dollars at six month intervals. Since Japan had a heavy deficit with the United States and most of the imported foodstuffs and raw materials were financed by US appropriated funds, SCAP could not afford to accumulate inconvertible sterling earned from the exports of goods made from dollar-financed raw materials, while at the same time asking the Congress for funds to finance Japan's overall trade deficit. The dollar convertibility provision forced the sterling countries to regard Japan as a hard currency source, imports from which were put under tight controls. Cotton textiles were excluded from payment in sterling because Japanese cotton textiles had to be sold in dollar markets to fulfill the

40 Cable from Crosec to Canberra, no.183, 21 August 1947, AA606, R40/1/42.
obligation to reimburse the US dollar loans for raw cotton purchases, though Washington showed preparedness to include cotton textiles in sterling trade in the event that Japan’s standing liabilities were liquidated and raw cotton became available from non-dollar sources.\textsuperscript{41}

While SCAP thought it ‘essential’ for Australia to join the Interim Agreement obviously in an attempt to facilitate wool procurement, Australia’s debt to Japan was on a dollar basis since it had purchased 7,000 bales of raw silk from Japan in a government-to-government deal in the previous year. As the Interim Agreement excluded financing government trade, Australia’s standing liability was left unsettled. This was one of the reasons why Australia had sought dollar payments for Japanese wool purchases. However, the need to impress SCAP with a conciliatory attitude towards the sale to Japan led Australia to endorse the agreement. In view of the political difficulty in granting credit to the former enemy, it was logical to facilitate Japan’s wool import by switching to financial settlement on a sterling basis.\textsuperscript{42}

The wool procurement plan of Scott and English bypassed the Interim Agreement, for Hong Kong was not a party to the Interim Payments Agreement.\textsuperscript{43} Australia raised strong objection to the Hong Kong deal and took the position that payment for any Australian wool shipped to Japan should be made directly from SCAP’s account where its sterling earnings from trading activities under the Interim Agreement would be saved.\textsuperscript{44} Scott and English might try to export to Australia its stocks of Japanese goods which would be subject to far more relaxed import licensing than in the case of direct purchases. It was expected that an excessive inflow of Japanese goods might arouse serious public repercussions.\textsuperscript{45} Furthermore, Scott and English might succeed in selling its Japanese goods to the dollar area, ‘thus acquiring dollars at Australia’s expense’.\textsuperscript{46}

\begin{itemize}
\item \textsuperscript{41} Department of State, ‘Aide-Memoire’, 25 August 1947, \textit{ibid.}
\item \textsuperscript{42} Rix, 1986, p.64.
\item \textsuperscript{43} Hong Kong was excluded from the Interim Agreement because, if included, Hong Kong, a centre of entrepot trade, would feel freer to spend its sterling to expand importation of Japanese goods which were likely to sell well in the sterling area and the other countries. This could culminate in a remarkable increase in SCAP’s convertible sterling surplus, thus causing severe dollar drain which Britain in no way could bear. Cable from Crosec to Canberra, no. 246, 22 November 1947, AA, A609, 317/20/4.
\item \textsuperscript{44} Cable from Canberra to Australian Government Trade Commissioner in Hong Kong, no.15, 10 February 1948, \textit{ibid.}
\item \textsuperscript{45} Cable from Australian Mission in Tokyo (AM) to Canberra, Department no.334, 14 October 1947, \textit{ibid.}
\item \textsuperscript{46} Cable from AM to Canberra, Department no.450, 28 November 1947, \textit{ibid.}
\end{itemize}
hand, if SCAP preferred the Scott and English system to the normal financial settlement under the Interim Agreement, as seemed likely in view of Hong Kong’s readiness to give SCAP much coveted credit for wool purchases in return for future delivery of Japanese manufactured goods, SCAP would not have to spend its sterling funds for Australian wool procurement and would leave a considerable amount of its sterling balance unused, which might eventually be converted into dollars.47

In fact, SCAP did not indicate any interest in implementing wool procurement from Australia through the normal channels established by the conclusion of the Interim Agreement. Alarmèd at the deadlock in trade, Patrick Shaw, Head of the Australian Mission in Tokyo, made an urgent plea to Canberra for consideration of some informal credit arrangement to facilitate Japan’s wool import:

From a short term point of view, it is important that the stalemate be broken so as to overcome what is really an important criticism (sic) of Australia in GHQ, SCAP on the score of lack of cooperation in helping their industrial rehabilitation programme. There is also an erroneous belief that the Australian Government, perhaps at the instance (sic) of the United Kingdom Government, is disinterested in seeing the Japanese woollen textile industry restored. From a long term point of view, I would assume that Australia’s main interest lies in restoring her former important market for raw wool in Japan ... I am aware that the present world demand for Australian wool is at a high peak, but it may still be wise to take some steps to encourage the maintenance of the former important market in Japan.48

In particular, Shaw tried to draw Canberra’s attention to the SCAP attempt to increase procurement of South American wool.

However, credit facilities for Japan had been categorically rejected for the political reason previously mentioned. Australia could not afford to give Japan purchasing power through forward purchases of Japanese goods, as the tightening of licensing restrictions against hard currency sources from December excluded Japanese goods altogether from the Australian market. Even if some licences were to be granted, Australian importers sought only cotton textiles which had to be purchased in dollars and did not show much interest in rayon and silk which were abundantly available from Japan.49

47 Cable from Canberra to Crosec, no.314, 24 November 1947, *ibid.*
48 Patrick Shaw, Head, AM, ‘Australian Wool Exports to Japan’, Undated (December 1947?), *ibid.*
In order to break the impasse, the Australian Commercial Counsellor in Tokyo, Hugh Wrigley, enquired in early December about the prospect of a sort of bilateral open account arrangement for SCAP’s wool purchases, the payment of which should be made in sterling against its standing credit of raw silk exports to Australia.\textsuperscript{50} SCAP was concerned about the possibility that the offset of two million dollars in credit with sterling purchases of wool might be taken as a precedent for dollar payments for future wool purchases. One of the ESS officials revealed that the deal would ‘only be a very small beginning’ and that he was most interested in the ‘follow up’. Wrigley was asked to clarify Canberra’s policy on the supply of wool to Japan,\textsuperscript{51} and in his report to Canberra he also mentioned SCAP’s latest opinion that Japan’s sterling trade would not amount to such a a large sterling surplus for SCAP as had been previously estimated.

Conditioned to using dollars supplied from US appropriated funds only for overseas foodstuffs, SCAP could not expand its purchases of raw materials such as wool from the sterling area, as long as the sterling countries refused to provide SCAP with adequate sterling funds.\textsuperscript{52} SCAP’s conservative estimate reflected its serious concern about dormant sterling trade due to the tight import controls imposed on Japanese goods by the sterling countries, and the Foreign Trade and Commerce Division started to consider waiving conversion of a certain amount of sterling surplus into dollars in order to dispell the British fear of a dollar drain.\textsuperscript{53} Wrigley’s report about the pessimistic atmosphere in Tokyo impressed Canberra, which proposed to the United Kingdom some relaxation of import restrictions against Japan.\textsuperscript{54}

Moreover, Canberra took up Wrigley’s suggestion and instructed him to approach SCAP with a proposal for a bilateral trade arrangement on 23 January.\textsuperscript{55} The Australian proposal was officially submitted to SCAP on 5 February. It revealed Australia’s preparedness to relax import restrictions against Japanese silk and rayon and insulators up to the value of approximately £A2 million during the 1948 calendar year on the condition

\textsuperscript{50} Wrigley to Tonkin, 7 December 1947, AA, A606, R40/1/42.
\textsuperscript{51} Wrigley to Tonkin, 12 December 1947, \textit{ibid}.
\textsuperscript{52} Wrigley to Canberra, 8 December 1947, \textit{ibid}.
\textsuperscript{53} Pickelle to Marquat, ‘Sterling Agreement with the British’, 1 November 1947, SCAP, 6707(9), ESS(A)05093.
\textsuperscript{54} Cable from Canberra to Crosec, no.343, 16 December 1947, AA, A606, R40/1/42.
\textsuperscript{55} Cable from Canberra to AM, no.25, 23 January 1948, \textit{ibid}.

68
that SCAP should spend the full amount of these proceeds on purchases of Australian products. Australia further offered to pay SCAP in sterling its outstanding liabilities for raw silk in order to provide ‘immediate finance’ for wool purchases as some delays might be expected before SCAP received payments for the proposed Japanese export goods from Australian importers. The proposal was accepted by SCAP as ‘an important step towards restoration of normal commercial relations between Japan and Australia’.

Thus, the initial financial predicament in postwar Australia-Japan trade was overcome, but the arrangement was only a provisional measure, and a wider, more multilateral sterling trade system had to be established before Japan could procure more freely Australian wool of desired quality and quantity. Under the bilateral trade arrangement, SCAP was provided with immediate credit through Australia’s standing liabilities. But there was no guarantee that Australia would continue to provide SCAP with extra sterling funds, as Australia might be forced to tighten its import licensing at any time if the balance of payments deteriorated. With the Japanese woollen textile industry’s potentially huge demand for Australian wool, such a small market as Australia did not have sufficient purchasing power for Japanese manufactures, to match prospective active Japanese purchases. There were, thus, severe limitations in the pursuit of balanced bilateral trade between the two economies because Japan tended to import far more from Australia. Hence a device had to be sought to give Japan adequate sterling funds to finance procurement of a larger volume of Australian wool by establishing a broader trading network involving balanced trade between Japan and a group of the sterling area countries including Australia as one party. This is discussed in the following chapters.

With the prospect of the proposed bilateral trade arrangement in sight, Australia withdrew its objections against the Scott and English deal to purchase Australian wool for Japan via Hong Kong. Canberra instructed Wrigley to take immediate steps to correct SCAP’s impression based on Australia’s opposition to the Scott and English deal that Australia was trying to intervene in SCAP’s nomination of an agent for Japanese wool purchases. It was in Australia’s interest to impress SCAP with its eagerness to resume private trade with Japan and supply raw wool for the rehabilitation of the Japanese textile

56 Wrigley to Pickelle, ‘Private Trade with Japan’, 5 February 1948, SCAP, 6783(1), ESS(A)05942.
57 Pickelle to Wrigley, ‘Private Trade with Japan’, 14 February 1948, ibid.
58 Cable from Canberra to AM, no.61, 13 February 1948, AA, A606, R40/1/42.
industry. In February 1948, SCAP concluded a contract with Scott and English for the procurement of £1 million of Australian wool on the condition that the Hong Kong firm would purchase the equivalent value of Japanese woollen textiles.\footnote{Kanematsu Yomo Nempo, 1949, p.79.}

This contract caused a further delay in SCAP’s wool procurement from Australia. Australian wool interests were firmly opposed to any wool procurement system which would give an unknown firm such as Scott and English preferential treatment to act as SCAP’s coordinator in Australia. The Australians suspected that the firm had no experience in Australian wool trade and that it might make the most of such an advantageous position for its own business purpose.\footnote{D.A.S. Campbell, Chairman, New South Wales and Queensland Woolgrowers’ Association to Laupheimer, ‘Buying of Wool in Australia for S.C.A.P.’, 22 April 1948, SCAP, 6747(19), ESS(A)05537.} Their opposition was such that in April 1948, Max B. Laupheimer, Chief of Wool Procurement of the Foreign Trade and Commerce Division, visited Australia to settle the matter and arrange a procedure for wool procurement.

Australia’s strong resistance drove concessions from SCAP. In late May, SCAP instructed Laupheimer in Sydney to negotiate agency contracts with three Australian wool brokers, namely, Dreyfus & Co., J. Gunton, and John Sanderson & Co. Together with Scott and English, these firms were commissioned to purchase wool at the Australian market in accordance with SCAP’s instructions, and the initial purchase program of 250,000 bales was immediately authorised.\footnote{Laupheimer, ‘Summary: Australia and New Zealand Wool Mission, 2 April. to 25 June. 1948’, 22 June 1948, ibid.} This move was received with satisfaction by all interested parties in Australia. In response to SCAP’s concession, the Commonwealth Bank of Australia approved Scott and English’s original proposal of wool purchases in Australia being paid in Hong Kong sterling.\footnote{W.M. Forbes, Commonwealth Bank of Australia, to Stanley Smith, Scott and English, ‘Banking (Foreign Exchange) Regulations: Control of Proceeds of Exports’, 1 May 1948, SCAP, 6747, ESS(A)05538.}

Thus, a stable system for Australian wool procurement in the early postwar period was established at last. There was no denying that Australia was potentially the largest supplier of wool to Japan, and it seemed to be in SCAP’s interest to secure an adequate supply of Australian wool for the Japanese woollen mills. SCAP’s decision to withdraw
preferential treatment for Scott and English derived from this consideration. In support of withdrawal, the Textile Division of ESS wrote:

Since the Australians "opposed" the principle of the Scott and English contract when it was first announced, I think we would prejudice our position if we give this firm preferential treatment at this time ... It has taken us a long time to come to an agreement with the Australians on wool procurement and I would hate to see the procurement program bog down again, as it is a high time that the woollen and worsted industries were operating and contributing their share to the support of the Japanese economy. Giving Scott and English preferential treatment would, I think, jeopardise the good will that we have built up with the Australians and would probably hamper the functioning of our procurement program ... 63

Soon after the conclusion of the bilateral trade arrangement in February, SCAP had sterling funds in its account, paid by Canberra for its silk liabilities. Japan's wool purchases from this credit commenced in June. 64 But the delay in the arrangement of an Australian wool procurement program had already opened the door for other wool suppliers to initiate business with Japan.

ALTERNATIVE SOURCES OF RAW WOOL

After the arrival of the first shipment of Australian wool in the postwar period in June 1947, Japan did not procure Australian wool until mid 1948 due to this delay in reaching a financial arrangement. During this interval, SCAP extended the network of supply of raw wool into South America and South Africa. It was Draper and Company of Boston, USA, which promoted the diversification of the Japanese wool procurement. In August 1947, when Japanese wool stocks had almost runout, the company readily offered a direct sale of 500,000 lbs. of Argentine wool. Furthermore, Draper and Company showed its preparedness to sell an additional 500,000 lbs. of South American wool. 65 Both offers were duly accepted, and the company presented a third offer of 645,000 lbs. for SCAP's consideration. In view of the delay in the establishment of a procurement program for Australian wool, the prices of which had been pushed up due to keen competition among

63 C.C. Campbell, Acting Chief, Textile Division, ESS to Pickelle, 'Procurement of Australian Wool', 18 March 1948, SCAP, 6116(6), ESS(D)00890.
64 DCA, 'Trade with Japan', June 1948, p.29, AA, A609, 317/20/5.
65 Foreign Trade Division, 'Memorandum for Record', 29 August 1947, SCAP, 6090(4), ESS(D)00808.
buyers at the auctions, the Foreign Trade and Commerce Division recommended acceptance of these offers, insisting, 'It appears advantageous at this time to develop alternative source of supply from which desirable qualities of wool can be obtained at favorable prices'. The payment would be made in July from the million dollar SCAP Trust Fund which was allocated specially to immediate wool purchases to overcome the serious shortage.

This idea to develop South America as an alternative source of wool supply was prevalent within SCAP in early 1948. In February, an official of the Foreign Trade and Commerce Division presented a wool procurement plan for the first half of 1948. It proposed to purchase 15,000 bales of wool from New Zealand, 25,000 from Australia, 20,000 from South Africa and 20,000 from South America respectively. The financing of the first three purchases was yet to be settled with the exception of 10,000 bales of Australian wool to be paid from SCAP's standing credit with Australia, though the need to settle the Scott and English deal was to delay the implementation of the plan, as previously mentioned. It must be emphasised that SCAP had already authorised the spending of $4,000,000 for direct purchases of 20,000 bales of South American wool. Since there were no other prospective suppliers, 'it was agreed that this was a reasonable and attractive investment opportunity for funds available in Japan'. In particular, it was planned to allocate not less than $500,000 to Urugayan wool, 'as this is an important method of initialing (sic) trade with Latin America'. The fact that the Urugayan wool was used for production of paper felt for domestic use rather than export goods illustrates the strategic character of this procurement to open a promising export market by providing the counterpart with the purchasing power for Japanese goods.

Draper and Company's vigorous activities did not stop with South America. In March, it succeeded in securing a shipment of more than 5,000 bales of South African wool which SCAP had had little hope of procuring. At the same time, the Company

---

66 Foreign Trade Division, 'Memorandum for Record', 9 September 1947, ibid.
67 Radio from SCAP to Washington, C-54018, 14 July 1947; Foreign Trade Division, 'Memorandum for Record', 29 August 1947, ibid.
68 S.J. Janow, Chief, Plans and Programs Unit, Foreign Trade Division, to Pickelle, 'Wool Procurement', 5 February 1948, SCAP, 6445(27), ESS(B)03668.
69 ESS (Textile Division?), 'Memorandum of Woolen Textiles Export Sales Program', March 1948, SCAP, 6709(38), ESS(C)05438.
recommended that it would be in Japan's interest to stop buying dearer Uruguayan wool and to look to the cheaper New Zealand market.\(^{70}\) Thus during this period, SCAP's wool procurement had virtually been put under the guidance of one US company.

The merits of using Draper and Company were outstanding. Since it had an extensive information network throughout the world and good experience in South American and South African markets, it could find the required types of wool at cheaper prices from various sources which might be overlooked by the inexperienced SCAP officials and the Japanese wool interests which had a strong bias for Australian wool.\(^{71}\) The firm must have impressed the SCAP trade officials with its selflessness in pursuit of the cheapest possible wool as shown in its recommendation of the New Zealand market where Draper and Company had no previous business interest at all.

Draper and Company did not particularly prejudice SCAP against Australian wool. For the 1948–49 wool season, it advised that $45,000,000 be spent on Australia, $5,000,000 on New Zealand, $20,000,000 on South Africa and $15,000,000 on South America.\(^{72}\) This allocation gave a larger share to Australia than the previous SCAP plan of February. There is no denying, however, that since it specialised in South American and South African wool, Draper and Company had the ability to draw SCAP's attention to the wool from these sources. Hence, the Company was able to take full advantage of the deadlock in the negotiations for Australian wool procurement.

**THE COORDINATION OF JAPANESE WOOL PROCUREMENT BY DRAPER AND COMPANY**

The dominance of Draper and Company was further strengthened when the firm entered into a contract with the Japanese Board of Trade (Boekicho) to operate as coordinator of Japanese wool procurement on 25 October 1948.\(^{73}\) The Company had shown its willingness to maintain business relations with SCAP, demonstrating its past achievement in procurement for Japan.\(^{74}\) By that time, the SCAP officials had become aware of the

---

\(^{70}\) The Draper to Laupheimer, 16 March 1948, *ibid.*

\(^{71}\) Joseph A. Malone, Draper and Company, to Pickelle, 30 April 1948, *ibid.*

\(^{72}\) Malone to Laupheimer, 6 July 1948, SCAP, 6445(27), ESS(B)03668.

\(^{73}\) W.T.R. to Marquat, 25 October 1948, SCAP, 6116(9), ESS(D)00899.

\(^{74}\) Malone to Pickelle, 30 April 1948; Malone to Laupheimer, 6 July 1948, SCAP, 6445(27), ESS(B)03668.
inefficiency of their procurement program during the 1947–48 season, particularly with regard to the disadvantages of awaiting firm offers from overseas buyers and then making purchasing decisions. Under such a system, Japan would often miss the chance to buy at the cheapest market prices. Thus, SCAP began to consider the possibility of appointing an experienced wool trader as coordinator to authorise brokers to buy up to a certain amount of specific types of wool within a stated price range. Little wonder that SCAP duly selected Draper and Company as coordinator especially in view of its past achievements and experience with Japanese requirements.\textsuperscript{75}

The introduction of the coordination system through Draper and Company meant that the company would become involved in wool purchases in not only South America and South Africa but also Australia and New Zealand. This provoked strong protests from Japanese wool manufacturers and importers. Since the start of the procurement of South American wool by Draper and Company, the Japanese interests had been critical of the procedure under which the Company was exclusively authorised to order local buyers to select certain types and qualities of wool.\textsuperscript{76} The expansion of Draper and Company’s activities into Australia where the Japanese buyers had been more experienced raised concern among the Japanese wool manufacturers who felt that they had completely lost their say in the selection of imported wool. In a desperate attempt to obtain raw wool of their own choice, the Japanese wool traders, to Draper and Company’s dismay, tried to bypass the system by letting their agents in Australia ask Draper and Company’s agent in Sydney to give SCAP firm offers for sales of certain designated types of wool.\textsuperscript{77} Despite strong and frequent protests from the Japanese, it was impossible to change SCAP’s policy. Although it is reported that some officials of the Textile Division had been sympathetic to the Japanese plea for more discretion in wool selection,\textsuperscript{78} the Division itself revealed its

\textsuperscript{75} Chandler M. Wright, Economic and Fiscal Adviser, to Chief, Fund Control Division, ESS, ‘Wool Operations’, 14 August 1948, SCAP, 6709(37), ESS(C)05438.

\textsuperscript{76} Kanematsu Yomo Nempo, 1949, pp.81-82.

\textsuperscript{77} It was reported that SCAP’s wool brokers in Australia were incensed at the Japanese request, which they felt a ‘reflection on them as well as Draper’ which had been seriously serving SCAP in selection of suitable types of wool at cheaper prices on behalf of the Japanese. Cable from the Agent of Draper and Company in Sydney to Draper and Company in Tokyo, no.20, February(?) 1949, SCAP, 6782(7), ESS(A)05906.

\textsuperscript{78} Kanematsu Yomo Nempo, 1949, p.80; Nihon Yomo Bosekikai [Japan Wool Spinners Association], Nihon Yomo Kyogyo no Kaiko: Tokuni Gemmo Mondai wo Chushin nishite [Wool industry in retrospect focusing on raw wool imports], 1980, p.40.
high regard for Draper and Company by sending an unusual memorandum to Marquat. Its purpose was simply to draw the attention of the Chief of ESS to the successful operation of the coordination system. 79

With only a few sympathisers inside SCAP, the Japanese wool interests virtually had no power to influence its policy. A Japanese businessman of Kanematsu and Company recalled that he was even refused admission to the ESS office because he had provoked Laupheimer’s anger after visiting his office almost every day to campaign against the Draper system. 80 When the Draper coordination contract expired in July 1949, SCAP did not hesitate to extend it until 31 December 1949, despite the vehement opposition of the Japanese wool businessman who had really been looking forward to the introduction of private wool imports. 81 In view of their traditional strict selection of type and quality, it is quite understandable that the Japanese wool interests wanted to obtain wool from private channels. Under the fluctuating trading circumstances of the early postwar period, however, they could not be too particular about the quality of wool which had to be purchased due to the limited funds available. With hindsight, a prominent Japanese wool importer realised the merits of the Draper system, stating that ‘since each buyer had to give serious consideration to various matters such as finance, profits and market conditions on every occasion under the private import system, it would have been more time consuming than the Draper system which simply aimed at reaching a target volume within a certain quality and price range, so ‘it would have been difficult to purchase such a large volume of wool as was achieved under the Draper system between September and December 1948 when the amount of sterling available for wool imports was far less than expected’. 82

WOOL PURCHASES IN 1949

In mid 1949, SCAP considered increasing the amount of imported wool to be allocated to production for domestic use. In particular, the quality of wool for domestic use was to be raised in the light of the sizable sterling balance held in the SCAP account, as discussed in

79 F.A. Williams, Chief, Textile Division, to Marquat, ‘Draper Wool Purchase Coordination’, 2 May 1949, SCAP, 6149(5), ESS(C)01493.
81 Textile Division, ‘Memorandum for Record’, 12 August 1949, SCAP, 6149(6), ESS(C)01497.
the next chapter. Since Australian wool was favoured by the Japanese mills, the increase in domestic allocation due to an excessive sterling balance certainly helped to bring Japan back into the Australian wool market.

Even so, the occupation authority did not make light of wool procurement from other sources. A good example is the recommendation of the ESS's Fund Control Division, which was responsible for management of trading funds, on wool procurement:

In view of the sizable imbalance of trade currently existing with the Sterling Area, it is desirable to go slowly in the procurement of wool from South American suppliers. However, if prices are lower than for comparable types of wool purchased for Sterling and exports of Japanese products are lined up, other factors being equal, it would be acceptable to the Fund Control Division to spend up to approximately $700,000 [one fourth of annual trade program] for Uruguayan wool.

The underlying idea in the wool procurement policy remained unchanged even when there were excessive sterling balances in that it emphasised the prospect of increased Japanese exports to wool supplying countries other than Australia. SCAP had expected South America to develop into a good market for Japanese goods especially wool manufactured goods. In 1949, SCAP made a commitment to South American wool by concluding further trade arrangements, after the SCAP Mission, led by Pickelle, visited Latin American countries during March and June. It is easy to imagine that one of the purposes of the Mission was to study wool procurement from the region because it included a Japanese wool trader to inspect the market conditions.

In SCAP's consideration of a wool procurement program for the 1949-50 season, the payment for raw wool was to be partly offset through export earnings from wool manufactured products. This meant that South America and South Africa had the edge on Australia which had never been a good market for such products. Thus, tight financial conditions led SCAP to search for export opportunities in promoting the Japanese wool manufacturing industry.

---

83 James G. Torrens, Chief, Procurement and Operations Branch, Textile Division, to Williams, 'Raw Wool Procurement', 17 May 1949, SCAP, 6782(7), ESS(A)05905.

84 Paul Cleveland, Chief, Fund Control Division, to Textile Division, 'Uruguayan Wool', 26 July 1949, SCAP, 6149(6), ESS(C)01497.

85 Nihon Yomo Bosekkai, 1980, p.56.

86 Textile Division to Foreign Trade Division, 'Proposed Wool Program for the Period 1 July 1949 to 30 June 1950', 2 August 1949, SCAP, 6149(6), ESS(C)01497.
To be sure, SCAP initially looked to Australia to supply a larger volume of raw wool. But the difficulties in reaching an agreement over the procedure for procuring Australian wool caused a serious shortage of wool stocks for the Japanese woollen mills. Hence, SCAP was forced to seek alternative sources, and that situation gave Draper and Company the opportunity to emerge as Japan's chief wool trader. Under its coordination, Japan's wool procurement was diversified more into South African and South American markets. Despite the strong opposition to the Draper system from the Japanese wool industry which favoured private imports of Australian wool of its own choice, the system continued until the deregulation of Japanese import trade in January 1950.

SCAP's shortage of funds to finance wool purchases from Australia was the most significant factor in the diversification of postwar Japanese wool procurement. If it was to overcome the financial difficulties whereby most of its limited dollar funds had to be spent on raw cotton ahead of raw wool, SCAP desperately needed to obtain purchasing power in sterling cash to finance procurement of Australian wool by facilitating Japanese export trade to the sterling area countries. The following chapter discusses the question of SCAP's initial policy towards Japan's overall sterling trade and its implications for Australia.
4 Stagnant Sterling Trade and Dollar Shortage, 1948–49

Wool had long been established as Australia’s main export to Japan. Yet, despite the strong demand for Australian wool by the Japanese woollen textile industry, resumption of wool purchases from Australia was slow because Australia was reluctant to allocate to the Japanese mills wool of finer quality which sold well at better prices to the other buyers under the postwar sellers’ market conditions. This resulted in the diversification of Japanese wool imports under the coordination of the firm Draper and Company, to non-Australian sources. In the early postwar period, there was another factor which affected expansion of Australia-Japan trade. SCAP’s shortage of funds to finance imports hampered active procurement of raw materials and foodstuffs from Australia. Even after the Overall Payments Agreement enabled Japan and the sterling area countries to trade on a sterling basis to overcome this financial predicament in May 1948, SCAP was quite slow to activate purchases from the sterling area countries among which Australia had the largest capacity to supply Japan.

This chapter traces the negotiations between SCAP and the sterling area countries after the conclusion of the Overall Payments Agreement. In order to facilitate smooth operation of the Overall Payments Agreement, SCAP and several sterling area countries entered negotiations for a Sterling Trade Arrangement to cover Japan’s sterling trade in the financial year 1948/49. The sterling trade negotiations were held continually between SCAP and the sterling area countries to review trading activities and to make amendments to the Trade Arrangement annually, until SCAP handed over its negotiating power to the Japanese government in early 1951. The negotiations reflected SCAP’s view of the significance of sterling trade for Japan’s economic recovery and self-reliance. SCAP’s policy had a severe impact on the expansion of Australia-Japan trade as well, for the level of its sterling funds was an important determinant of the level of procurement of Australian commodities such as raw wool.
During the period from mid 1948 to September 1949, SCAP did not show much interest in increasing purchases from sterling area countries. Since the occupation authority emphasised the promotion of exports of Japan's less competitive and less essential industrial goods to offset its purchases of commodities in trade with the non-dollar area, it showed increasing interest in cultivating commercial links with Latin American countries which seemed to be a good market for these items. On the other hand, the sterling area countries confined their purchases from Japan to essential items such as cotton textiles, which could have earned dollars if exported to the dollar area instead of the sterling area, so SCAP imposed strict control over the use of its sterling funds. As a result, SCAP accumulated a considerable sterling surplus. When SCAP showed signs of looking to the sterling area as a source of dollar income by converting its sterling funds into dollars in mid 1949, Japan's postwar trade relations with the sterling area seemed to break down, as the sterling area countries were prepared to curtail their imports from Japan substantially to forestall the loss of dollars.

When the devaluation of the pound sterling became imminent, SCAP revealed its intention to claim conversion to safeguard against depreciation of its sterling assets. The British government countered with a desperate threat to cease sterling payments in trade with Japan if SCAP converted. There emerged a real danger that Japan's sterling trade would return to the situation at the early stage of the occupation when both Japan and the sterling area could not expand their two-way trade due to the shortage of dollars. The contraction of Japan's sterling trade during this period resulted from SCAP's conservative approach to the financing of trade in order to save dollars and its aspiration to develop trade relations with non-dollar non-sterling area countries with which SCAP extended a network of bilateral trade and payments agreements. This chapter examines SCAP's conservative policy towards sterling trade, in order to show how it affected Australia's commercial interests as the main sterling supplier for Japan. SCAP's concern about dollar saving at this stage of the occupation hampered the expansion of Japanese trade on a more multilateral basis, despite the active demand for Japanese goods within the sterling area, since Australia could not earn purchasing power for other sterling area countries through its bilateral trade surplus with Japan.
THE OVERALL PAYMENTS AGREEMENT AND THE COTTON TEXTILES PROBLEM

On 29 May 1948, the Overall Payments Agreement was concluded between SCAP and the representatives of the British government to replace the Interim Payments Agreement of November 1947. The Agreement stipulated payment in sterling for all trade except Japanese cotton textiles between Japan and the sterling area countries except Hong Kong. SCAP retained the right to convert its sterling funds into dollars at six-month intervals or at any time that SCAP considered it necessary 'for the protection of foreign exchange assets of Japan or for the conduct of Japanese foreign trade'.

The so-called dollar convertibility clause was inserted to restrain the sterling area from overbuying Japanese manufactured goods, especially cotton textiles, for which the British colonies and the dominions had considerable demand due to the inability of United Kingdom manufacturers to produce them beyond the level of domestic needs. Since Japan procured raw cotton largely through dollar payment, SCAP desperately needed to maximise Japanese exports to the dollar area to reimburse loans provided by the US Commodity Credit Corporation (CCC) for Japan’s purchases of American raw cotton. The dollar convertibility clause was established for the purpose of checking the diversion of Japanese export goods, otherwise capable of earning dollars, into the sterling area markets where the prices were attractive for Japanese exporters due to inflation and the application of the overvalued exchange rate of pound sterling. On the other hand, the sterling area countries could not afford to run the risk of a dollar drain due to the balance of payments crisis which caused the suspension of free convertibility of sterling into dollars in July 1947. Without SCAP's endorsement to offset exports of Japanese manufactures through active procurement from its counterparts, the sterling area countries would maintain their tight import controls for fear of incurring dollar liabilities under the Overall Payments Agreement. Such a situation would hamper expansion of Japan’s sterling trade.

Hence, it was necessary to work out a trade plan to ensure balanced trade at the maximum level between Japan and the sterling area. With this objective in mind, SCAP officials and the British Commonwealth government representatives including the United

---

1 SCAP to Head of the United Kingdom Liaison Mission in Tokyo (UKLM), 'Payments Arrangements for Trade between Japan and the Sterling Area', 29 May 1949, DAO, B’0.0.2.0.
Kingdom and its colonies, Australia, New Zealand and South Africa, entered negotiations for a Sterling Trade Arrangement in Tokyo on 8 July 1948. The basic objectives and general principles of the sterling trade negotiations can be summarised: (a) trade to be balanced at as high a level as possible; (b) trade to be on a sterling basis and payments and credits to be in accordance with the Overall Payments Agreement; (c) both sides to estimate maximum availabilities and requirements to guarantee the volume of transactions covered by private trade and to undertake to authorise and facilitate trade up to the agreed level of approximate balance.2

The sterling area countries participating in the Sterling Trade Arrangement with SCAP (participants), such as the United Kingdom and the Commonwealth dominions, gave the highest priority to securing purchases of Japanese cotton textiles in the negotiations.3 The participants estimated their annual requirements of cotton textiles and yarn as $47.2 million in a total import estimate of $75.7 million during the period from 1 July 1948 to 30 June 1949. A note attached to the figure for cotton textiles stated that this was an ‘elastic item’ and the sterling participants wished to buy ‘as large a quantity as possible subject to keeping the account in balance’.4 Australia was no exception in its desire to import Japanese cotton textiles.5

Cotton textiles were treated in a different manner from other items in the Overall Payments Agreement. The Agreement exempted Japanese cotton textiles manufactured ‘in whole or in part from raw cotton of U.S. origin’ from the provision for all trade on a sterling basis. Japan’s financing of raw cotton imports during 1946/47 totally depended on the loans by the CCC of the United States which required Japan to reimburse its debts in

---

2 Cable from Crosec to Canberra, no.134, 8 May 1948, AA, A606, R40/1/51. Sterling Trade Arrangements Conference, 'Report of First Meeting on Trade Arrangements with Sterling Area', 8 July 1948, AA, A606, R40/1/67. In this chapter I frequently use the documents from the A606 series of the Australian Archives each file of which is numbered by three separate digits with a 'R' heading, as above. Hereafter I describe only the 'R' headed file numbers for quotation or citation of the documents from the files in the A606 series in this chapter.

3 While the Overall Payments Agreement covered all the sterling area countries except Hong Kong, only the United Kingdom and its colonies, Australia, New Zealand, and South Africa revealed their intention to participate in the Sterling Trade Arrangement at the start of the negotiations in July 1948. India later joined the 1948/49 Arrangement, and Ceylon became the party of the 1950/51 Arrangement. South Africa refused to join the 1949/50 and 1950/51 Arrangements.

4 E.R Lingeman, Economic Adviser, UKLM, to Pickelle, Chief, Foreign Trade and Commerce Division, ESS, 3 July 1948, R40/1/66.

dollars from the export earnings of its finished goods. Despite its pressing demand for Japanese cotton textiles, the UK government had no choice but to accept exclusion of cotton textiles from payment in sterling.\footnote{Britain's concurrence in this provision was based on the consideration that trade between Japan and the sterling area would almost balance without inclusion of cotton textiles, thus minimising the risk of dollar drain. The Overall Payments Agreement was still considered preferable to open account arrangements which had proved restrictive to expansion of trade. Cable from the Australian High Commissioner's Office in London to Canberra, no. 2753, 7 August 1947, R40/1/42.} Although the officials of the Foreign Trade and Commerce Division of the ESS recognised the importance of removing the dollar payment commitment in the CCC loans for promotion of sterling trade, at the time of the negotiations for the Overall Payments Agreement in late 1947 to early 1948, the CCC contract obliged them to offer cotton textiles only in return for dollar payment, which no sterling area countries could afford.\footnote{Cable from UKLM to Foreign Office (FO), the British Government, no. REMAC 19, 26 February 1948, R40/1/51.}

However, SCAP began to show a more positive attitude to cotton textile sales on a sterling basis just before the start of the sterling trade negotiations. In April 1948, it announced its decision that only 50 per cent of the payments for Japanese cotton textiles produced from American raw cotton should be made in dollars and the other 50 per cent might be in other currencies.\footnote{Cable from AM to Canberra, no. 227, 24 April 1948, ibid.} This immediately led to an increase in the export of Japanese cotton textile goods. The export of Japanese cotton textile goods had begun in January 1947 and its volume tripled within six months. In October of that year, however, the export figure slumped below the January level and did not recover the mid 1947 level until mid 1948. It was obvious that the dollar-denominated CCC commitment had hampered recovery of Japanese cotton textile exports to the traditional markets such as the Netherland East Indies and the sterling area.\footnote{Nihon Boseki Kyokai [Japan Spinners' Association], Sengo Bosekishi [The history of the postwar Japanese spinning industry], Tokyo, 1962, pp. 41-44.} The improved situation drove SCAP to take another positive step; it offered sales of one hundred million yards of cotton textiles in sterling to the sterling area in June 1948. Appreciating the offer as the 'forerunner' to a more favourable arrangement, the sterling participants further pressed SCAP for cotton textile sales on the basis of 100 per cent sterling payment.\footnote{‘Extracts from letter dated 1 June 1948 from United Kingdom to General of the Army, Douglas MacArthur, Supreme Commander for the Allied Powers’, R40/1/66.} In the end, the 'earnest hope' of the participants
was realised when SCAP officially deleted the exceptional clause for cotton textiles from the Overall Payments Agreement in August 1948.\textsuperscript{11}

SCAP’s liberal approach to cotton exports to the sterling area reflected positive thinking towards expansion of Japanese trade held by the officials of the Foreign Trade and Commerce Division. In March 1948, its Chief, Frank E. Pickelle had made a proposal to General William F. Marquat, Chief of ESS, for cotton textile sales to the sterling area. Pickelle’s plan had focused on the impeding effect of the ‘dollar-straight jacket restrictions’ of CCC cotton on export trade. Although he admitted that sales of cotton textiles to the sterling area would of necessity be restricted due to SCAP’s shortage of dollars, the Trade Division Chief was concerned that the lack of sterling funds was also restricting the procurement of ‘critical material’ from the sterling area, such as wool from Australia, and SCAP might have to pay dollars for these commodities.\textsuperscript{12} Since Japan’s industrial production had just started to show signs of recovery by this time, such a positive approach to sterling trade suggests that the ESS officials aimed to increase the overall level of Japanese trade not only with the dollar area but also with any other countries which wished to trade with Japan, in order to sustain the improved domestic production levels.

The removal of the exceptional dollar payment provision for cotton textiles was in line with a series of measures for Japan, adopted by Washington as well as SCAP in 1948, for facilitating procurement of raw cotton and exports of cotton textiles. In anticipation of the complete reimbursement of the CCC cotton loans, Washington announced in May loans for raw cotton procurement to be provided by the US banks, using the Occupied Japan Export-Import Revolving Fund (OJEIRF) as collateral. In June the US Congress passed Public Law 820 which established the Natural Fibers Revolving Fund. From the Fund, $90 million was allocated for Japan’s import of American raw cotton. Until mid 1948, the US aid for Japan, named the Government Appropriation for Relief in Occupied Area (GARIOA), had not been allowed to be used for importation of raw materials but only for essential goods such as foodstuffs and medicines. In July, the Congress gave approval to the appropriation of $165 million for the Economic Rehabilitation of Occupied Area (EROA) which could be used for Japan’s import of raw materials such as cotton.\textsuperscript{13} These measures reflected the so-

\textsuperscript{11} SCAP to UKLM, 17 August 1948, DAO, B’5.2.0.J/B2.
\textsuperscript{12} Pickelle to Marquat, ‘Inter-Agency Agreement’, 30 March 1948, SCAP, 6707(9), ESS(A)05093.
called ‘reverse course’ in the US occupation goals which shifted from deprivation of Japan’s military capacity into Japan’s economic recovery, as officially stated in the US National Security Council Document 13–2 in October 1948.

THE 1948/49 TRADE PLAN

The Sterling Trade Arrangement was an attempt to minimise the restrictive effects of purely bilateral payments and trade agreements in the postwar period, by treating the multiple sterling area countries as one party in trade with Japan. As indicated in the previous chapter, Japan could not expand its procurement from Australia under the suspension of sterling convertibility, as long as its financial settlement was made exclusively in bilateral terms, as Japan’s imports from Australia had traditionally tended to surpass its exports. If Japan’s sterling trade was settled on a more multilateral basis, Japan would be able to initiate active purchases from Australia without worrying about bilateral balancing of trade, because the other sterling area countries, especially India and the British colonies in Asia had active demand for Japanese industrial goods. On the other hand, Australia’s sterling balance from its bilateral surplus with Japan could circulate within the area, to provide the other sterling area countries with purchasing power for Japanese goods, active exports of which would help to maintain Japan’s industrial production at a higher level. In order to sustain such a multilateral transaction system without incurring a dollar drain for either parties to the Trade Arrangement, it was enough if only overall trade between Japan and the sterling participants was balanced. Thus the negotiations started by establishing a trade plan for the financial year 1948/49 between Japan and the sterling area. If SCAP really intended to promote expansion of Japan’s overall trade, Australia could have expected dual benefits: an adequate supply of essential cotton textiles from Japan without dollar expenditure and increased exports of wool to Japan.

On the eve of the start of the sterling trade negotiations, however, the sterling participants found that SCAP was not prepared to buy from them as much as they had expected. On 1 July 1948, SCAP presented an estimate of 1948/49 trade between Japan and the sterling area. SCAP was prepared to purchase $156 million worth of commodities and to sell $140 million worth of goods including cotton textiles, thus leaving a favourable

*Japan, 1945-1951, vol.9, Textile Industries, Chapter V, ‘Cotton Production and Export’.* 84
overall balance of $16 million to the sterling area. These figures were almost twice as large as those estimated by the participants, and appear to have been more than acceptable to the sterling countries. But the participants were quite perplexed by the SCAP proposal, because SCAP allocated only $73 million out of the estimated total Japanese purchases of $156 million to the participants and the other $83 million was reserved for raw cotton and foodstuffs procurement from the sterling area countries not participating in the Sterling Trade Arrangement (non-participants), such as Burma, India, Pakistan. Furthermore, the figure of $73 million proved to be far more than the realistic supply capacity of the sterling participants which was calculated to be in the neighbourhood of $58 million. Against this realistic sales level, the estimated purchases by the participants from Japan of $96 million out of the total $140 million would leave a trade deficit of $38 million for the participants, while the non-participants were to enjoy a trade surplus of $39 million with Japan.14 SCAP's underlying idea was to finance raw cotton imports from the non-participants by the sterling funds accrued from textile sales to the participants.

The representatives of the sterling participants in Tokyo had to find a way of dealing with this offer. The sterling delegates ruled out the participation of Burma and Pakistan on the grounds that Burma had left the British Commonwealth and Pakistan had 'categorically declined' to participate in the Sterling Trade Arrangement in preference for a bilateral deal with Japan. The sterling delegates thought it reasonable to include India which was being represented at the negotiations but was yet to make a final decision. On the assumption of Indian participation, the trade balance between Japan and the sterling participants was likely to favour the latter. The participants took the view that an adverse balance would be well offset through purchases by the non-participants because past experience had shown that the pattern of Japanese trade with the whole sterling area was traditionally in Japan's favour.15

Eventually in early August it was agreed to include the estimated SCAP adverse balance in overall sterling trade of $12 million in the Trade Plan as a 'reserve purchasing pool' which could be used by the non-participants, particularly Burma and Iraq for their

---

14 Lingeman, 'Trade Arrangement between SCAP & Sterling Area: SCAP Estimate of 1.7.48', 7 July 1948, R40/1/66.
15 'Statement Made by the Economic Adviser to UKLM on Behalf of Sterling Area Group at Second Full Meeting of Conference for a Trade Arrangement Between SCAP and the Sterling Area Participants', 12 July 1948, R40/1/67.
purchases from Japan. This adverse balance resulted from the inclusion of SCAP’s past debts from the United Kingdom and India in government trade rather than expanded procurement from the sterling area. Excluding these debts, the estimated overall trade between Japan and the sterling participants including India was almost balanced slightly favouring purchases by the sterling area.

It was at the cost of Australian sales that this overall balance was worked out. At the meeting of the Wool Working Group on 9 July, SCAP officials submitted a counter-proposal for wool procurement against the sales offer by the sterling participants, shown in Table 4.1. SCAP’s wool requirement from Australia was drastically reduced by $16.7 million and from New Zealand by $1.8 million. The only consolation was that SCAP did not rule out the possibility of increasing its total purchases by $5–8 million ($3–5 million from Australia). However, this additional purchase was to be explored in the form of a processing arrangement for woollen fabrics which the Australian representatives rejected as outside the scope of the negotiations.

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Participants offer</th>
<th>SCAP requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>$30,224,000</td>
<td>$13,500,000</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3,250,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>South Africa</td>
<td>4,673,800</td>
<td>5,000,000</td>
</tr>
<tr>
<td>United Kingdom (tops)</td>
<td>76,200</td>
<td>125,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$38,224,000</strong></td>
<td><strong>$20,125,000</strong></td>
</tr>
<tr>
<td></td>
<td>(110,000 bales)</td>
<td></td>
</tr>
</tbody>
</table>


---


Eric Lingeman, Economic Adviser to the United Kingdom Liaison Mission in Tokyo (UKLM) did not conceal his disappointment at the proposed reduction of wool sales figures, saying that it was ‘most disconcerting’ for the participants because their offer of $38 million had been agreed to in the discussions in London in April between the British Board of Trade officials and Seymour Janow of the Foreign Trade and Commerce Division; and hence the participants had included wool as the main item, sales of which were expected to provide the sterling participants as a whole with purchasing power for Japanese cotton textiles.\(^{18}\) In fact, wool occupied half the amount of the total sales to Japan by the participants in their original estimates. SCAP responded to the participants’ dissatisfaction in a cold manner by reiterating that the determinant factor in the revision of the wool figure was Japan’s ‘requirement’ which had been fully examined by SCAP’s commodity experts, and was not based on the participants’ ‘availability’. Moreover, SCAP maintained that it could not procure raw materials ‘beyond the point of their useability (sic) and salability based on home needs plus export sales’.\(^{19}\)

SCAP’s wool procurement policy as explained to the Australian Commercial Counsellor in Tokyo, Hugh Wrigley, was that only 20 per cent of woollen manufactures produced from imported wool would be put into domestic use and 80 per cent would be exported to overseas markets. While the previous calculation of Japan’s wool requirements had been based on the operation capacity of the woollen industry to handle imported wool rather than ‘its ability to dispose of the finished products’, it was found that SCAP’s priority did not lie in mobilising the industry to provide clothing for the Japanese citizens beyond the minimum necessity for essential services.\(^{20}\) Since woollen products, unlike cotton textiles, had never been Japan’s major export earner in the prewar period and their largest export markets, namely China and Korea, were virtually closed, Japan had to find new outlets to put SCAP’s policy into action. Although SCAP proposed that the participants should import $7.75 million worth of woollen manufactures, delegates from the participating sterling countries considered it highly ‘questionable’ for them to absorb the proposed

\(^{18}\) 'Statement Made by the Economic Adviser to UKLM ...', 12 July 1948, *op.cit.*
\(^{19}\) Sterling Trade Arrangement Conference, 'Statement Made by the Chairman of the SCAP Trade Group [Pickelle] at Third Full Meeting Trade Arrangements Conference', 14 July 1948, R40/1/67.
\(^{20}\) Wrigley, to DCA, Canberra, 'Trade Arrangements–Wool', 15 July 1948, R40/1/66.
amount. With limited demand for Japanese woollen products, the sterling participants had no leverage to push SCAP’s estimate of wool procurement up and the figure of $20 million for wool trade remained unchanged.

It is noteworthy that the Australian representatives in Tokyo were not as shocked at SCAP’s reduced wool requirement as Lingeman. Wrigley observed, ‘[I]t does not seem that Australia has much cause for concern in regard to wool sales to SCAP other than the loss to the sterling group of the anticipated earnings from that source’. L.A. McWatters of the Commonwealth Bank who had joined the Australian Trade Delegation for the sterling trade negotiations even saw the reduction partly as SCAP’s ‘bargaining factor’ to expand Japan’s woollen textile exports to the sterling area. Neither Wrigley nor McWatters showed concern about the danger of losing Japanese wool market to other competitors, even in the light of South Africa’s enthusiasm concerning a proposed SCAP trade mission including Japanese woollen interests. In fact, SCAP had slightly increased its estimate of wool purchases from South Africa.

What worried the Australian representatives was that the reduced wool sales would result in curtailment of the purchasing power of the sterling participants as a whole to which Australia was expected to be a net contributor. In view of this predicament, Wrigley sent to Canberra a proposal to explore the possibility of extra sales of grains to Japan with the aim of making up for the loss in wool exports. In early August, Wrigley, in correspondence with Canberra expressed his satisfaction with the approval of the sale of 25,000 tons of wheat to Japan:

You will have realised we were somewhat disappointed on receiving SCAP’s proposed wool purchases, and we then felt that as practically our only assets had been slashed so much it was essential to build up our credits with other items. At that time it was felt by us all that the Trade Arrangements had been gravely

---

23 Wrigley to DCA, 15 July 1948, op.cit.
24 ‘Extract from memorandum dated 20th July, 1948, from Mr. L.A. McWatters’, R40/1/66.
prejudiced. However, the position has now been materially altered ... and special efforts to provide ‘Sales’ items are no longer necessary.27

Wrigley’s main concern at this stage lay more in providing credit for the participants in overall Japanese sterling trade than in expanding the traditional Japanese export market for Australian wool.

With the prospect of Australian wheat sales in sight, general agreements on the major points of the 1948/49 Sterling Trade Arrangement and the Trade Plan were reached at the eighth meeting of the negotiators on 11 August. Table 4.2 shows the outline of the 1948/49 Trade Plan as finally agreed after some minor modifications in late October.

Table 4.2 Sterling Area–Japan Trade Plan, 1 July 1948–30 June 1949

<table>
<thead>
<tr>
<th>Area</th>
<th>Sales from Sterling Area to Japan</th>
<th>Purchases by Sterling Area from Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK and Colonies</td>
<td>$46,723,000</td>
<td>$54,423,000</td>
</tr>
<tr>
<td>Australia</td>
<td>19,650,000</td>
<td>18,500,000</td>
</tr>
<tr>
<td>India</td>
<td>17,025,840</td>
<td>28,260,150</td>
</tr>
<tr>
<td>New Zealand</td>
<td>25,000,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>South Africa</td>
<td>8,191,000</td>
<td>6,768,000</td>
</tr>
<tr>
<td>For Internal Allocation among the Participants</td>
<td>850,000</td>
<td>850,000</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>94,089,840</td>
<td>111,301,150</td>
</tr>
<tr>
<td>Reserve Purchasing Pool for the Non-Participants</td>
<td>1,488,690</td>
<td>1,488,690</td>
</tr>
<tr>
<td>Estimated Balance of Indian Open Account</td>
<td>14,700,000</td>
<td>14,700,000</td>
</tr>
<tr>
<td>Estimated Balance of UK Open Account</td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>$112,789,840</td>
<td>$112,789,840</td>
</tr>
</tbody>
</table>


27 Wrigley to DCA, 10 August 1948, R40/1/67.
Financial matters had not been a central issue in the negotiations before August. Although the lack of adequate sterling funds was always a matter of concern for the SCAP officials, it had been expected that the inclusion of cotton textiles in the Overall Payments Agreement would provide Japan with adequate sterling cash to finance procurement from the sterling area.\(^\text{28}\) In reality, however, cotton textile sales to the sterling area did not solve the problem of financing sterling trade, and while the sterling delegates in Tokyo were waiting for a reply from their respective governments to the draft trade arrangement, a new issue emerged in the negotiations.

**THE STERLING CREDIT PROBLEM**

On 10 July, the Fund Control Division was newly established in the Economic and Scientific Section of SCAP and Paul Cleveland, Controller of the OJEIRF, was appointed its Chief.\(^\text{29}\) It was the Fund Control Division, responsible for financing export-import programs, that became the dominant force in controlling trade between Japan and the sterling area. In August, Cleveland began to realise the 'extremely bad' sterling position caused by various factors such as the open account liabilities with the United Kingdom and India incurred before the Interim and Overall Payments Agreements and the need to spend a larger sum of sterling on raw materials procurement than estimated export earnings.\(^\text{30}\)

The obligation to reimburse the open account debts and the seasonal concentration of Japan's purchases from the sterling area squeezed SCAP's sterling account. Even the active demand for Japanese textiles and other manufactured goods among the sterling area countries did not solve the short-term shortage of sterling because the volume of SCAP's heavy seasonal procurement far surpassed purchases during the corresponding season by the sterling area which tended to import Japanese goods at a relatively constant pace throughout the year. Therefore, the SCAP officials had to find the means of obtaining additional sterling.

---

28 Radiogram from Seymour Janow, Foreign Trade and Commerce Division, in London, to Marquat and Pickelle, 30 April 1948, transmitted to Tokyo as radiogram from US Department of State to SCAP, no.WAR SVC 6289, 2 May 1948, SCAP 6707(9), ESS(A)05093.


30 Memorandum by Paul Cleveland, Chief, Fund Control Division, ESS, Undated (August 1948?), SCAP, 6961(31), ESS(A)07366.
Initially, Cleveland tried to tackle this problem of a shortage of sterling through extra sales of cotton textiles to Egypt and the Sudan, but in early September, he was forced to take more decisive action. He approached the Financial Adviser to the UKLM, H.H. Thomas, and the managers of the British banks in Tokyo to request longer term sterling credit facilities. In the meantime, he did not validate import contracts with the sterling area pending a reply to this request, even at the cost of cessation of imports of essential raw materials such as rubber. However, the UK Treasury flatly refused any extension of credit facilities such as overdrafts and the OJEIRF based credits beyond the scope of the existing normal short-term commercial credits of 120 days. According to one of the US Embassy staff in London, the UK Treasury had been ‘reluctant, on political grounds, to approve any scheme of granting a loan or long-term credits to any enemy country’. Cleveland reacted angrily to the UK Treasury reply, as had been feared by the sterling representatives in Tokyo. At the meeting to finalise the form of the trade plan on 20 October, Cleveland threatened to abandon the Trade Arrangement unless an overdraft or longer-term credit facilities were granted.

It is possible to regard Cleveland’s threat to abandon the Sterling Trade Arrangement as a ‘lever’ to obtain additional financial credit from the United Kingdom, as observed by G.P.H. Knight, Commercial Secretary to the Australian Mission in Tokyo. Pointing out the difference of views between the Fund Control Division and the Foreign Trade and Commerce Division, which preferred the financing of trade through the expansion of Japanese exports, within ESS over the shape of Japan’s sterling trade, Knight referred to the fact that the Chief of the Foreign Trade and Commerce Division [Pickelle] ‘requested the meeting not to regard the views of the Fund Control Division as necessarily being those of the Supreme Commander’s Headquarters’, after Cleveland stormed out of the negotiation room outraged by London’s refusal on 20 October. In view of this, Knight

---

31 H.H. Thomas, Financial Adviser, UKLM, to Cleveland, ‘Sterling Credit for Japan’, 8 October 1948, R40/1/74. The OJEIRF was established to use the precious metals such as gold and silver which had been kept by the Japanese government (the so-called ‘gold pot’) as collateral in seeking a grant of credits from foreign banks. These credits were supposed to finance the import of raw materials to stimulate resumption of Japanese industrial operation.

32 Erle R. Dickover, Counsellor of the US Embassy, London, to Secretary of State, Washington, no. 1306, 8 June 1948, SCAP 6735(13), ESS(A)05441.

reported an optimistic view prevailing among the sterling representatives in Tokyo that Cleveland’s opposition would be ‘ruled out’ and his threat ‘should not be taken seriously’.  

Cleveland’s firm attitude had the desired effect. A day later, to the delegates’ relief, London moved to break the deadlock by authorising the UKLM to hold further discussions with SCAP on the assumption that if a sufficient case could be made, the British government would not oppose proceeding with an appropriate loan. While London considered it ‘simplest and most satisfactory’ for SCAP to use the so-called ‘dollar swap’, that is, to buy sterling through dollar deposits as security, it was prepared to offer £10-15 million of medium term credits for six to twelve months including the outstanding credits.

Thus, the 1948/49 Sterling Trade Arrangement including the attached Trade Plan was concluded between SCAP and the sterling participants including India on 9 November. The Arrangement covered trade during the period from 1 July 1948 to 30 June 1949 and stipulated that all trade should be conducted on a sterling basis in accordance with the Overall Payments Agreement. Each party undertook to expend on imports from the other party the full amount of the proceeds of its exports to the other party in order to balance trade at the highest practicable level. Since the Sterling Trade Arrangement provided a balancing of trade between Japan as one party and the five sterling area countries as the other party, it was expected that the Arrangement would have a far less restrictive effect than bilateral trade arrangements between Japan and each sterling country. The SCAP officials would not have to feel concerned about a prospective bilateral trade deficit with Australia in issuing import licences for purchases of Australian wool and other commodities, for such a deficit would be easily offset by active purchases of Japanese goods by the other sterling countries. The restrictive approach to sterling trade by the SCAP Fund Control Division, however, had serious effects on Japan’s sterling trade in 1949.

CONTRACTION OF JAPANESE PURCHASE FROM THE STERLING AREA

SCAP’s request for sterling credit, as revealed in the trade negotiations, had not been unfounded. In December 1948, the Fund Control Division estimated SCAP’s sterling debt

34 G.P.H. Knight, Commercial Secretary, AM, to DCA, 22 October 1948, *ibid.*
36 Cable from Crosec to Canberra, no.263, 23 October 1948, R40/1/74.
as of 1 February 1949 at £5.4 million which was within the range of the short-term credit of £6 million already granted by the British banks. In order to proceed with an additional £3 million worth of cotton procurement from India and Pakistan which had been under consideration, SCAP would need to be granted further sterling credit beyond this ceiling.\(^{37}\)

What had a serious impact on the flow of Japanese sterling trade was how SCAP had reacted to the estimated sterling shortage before credit facilities became available. If SCAP had taken the prospective export revenues into account in estimating its future sterling position, it could have adopted a more liberal approach to imports from the sterling area countries. As shown above, however, what concerned the Fund Control Division was solely the existing sterling balance. The result was a further contraction of procurement from the sterling area. Again the contraction involved sacrificing raw wool imports. In December 1948, five months after the beginning of the period covered by the 1948/49 Sterling Trade Arrangement, H.C. Menzies who succeeded Wrigley as the Australian Commercial Counsellor in Tokyo found that SCAP had given approval for the procurement of only $2,000 of raw wool from the sterling area as opposed to the $13,500,000 of the total estimated Japanese wool purchases from the sterling participants, as agreed in the Trade Plan.\(^{38}\)

It was obvious that the Fund Control Division gave considerably lower priority to wool than cotton in estimating its requirements. When in September 1948 the Textile Division of ESS proposed the purchase of Pakistani and Indian cotton, Cleveland gave an unconditional approval on the grounds that the procurement was 'a must'.\(^{39}\) Then, as the prospective sterling position deteriorated in December 1948, Cleveland curtailed the amount of these cotton by more than half, but at the same time he totally rejected the wool purchases from Australia and South Africa, as also proposed by the Textile Division.\(^{40}\)

SCAP officials attributed slow wool procurement to the difficulty in increasing the export of woollen manufactures to the sterling area. The Australian Commercial Counsellor rejected this, insisting that the stagnant Japanese woollen exports were mainly caused by the

\(^{37}\) Radiogram from SCAP to Department of the Army (DA), Washington, no. C-66308, 15 December 1948, SCAP6961(31), ESS(A)07365.

\(^{38}\) H.C. Menzies, Australian Commercial Counsellor in Tokyo, to DCA, 17 December 1948, R40/1/80.

\(^{39}\) Cleveland to Textile Division, 'Use of Pound Sterling for Procurement of Pakistan and Indian Raw Cotton', 13 September 1948, SCAP, 6961(31), ESS(A)07364.

\(^{40}\) Cleveland to Textile Division, 6 December 1948, ibid.
virtual closure of the traditional Chinese and Korean markets and that the woollen producers in the sterling area were also faced with difficulty in selling their own products overseas. However, SCAP and the Japanese woollen industry were quite serious about their claim for increased exports to the sterling area. A matter of concern for the Japanese woollen industry was the looming trend towards introducing import restrictions on Japanese woollen textiles in the sterling markets such as India and South Africa, in order to safeguard their domestic industry. They were also dissatisfied with the hard currency treatment given to Japanese products by the sterling area even though the principle of balanced trade, as stipulated in the Sterling Trade Arrangement, should have dispelled any anxiety of dollar drain. The Textile Division of the ESS was more extreme in its pursuit of promotion of woollen exports, going so far as to make the extraordinary recommendation that the Australian and New Zealand governments should establish a ‘special import quota’ for which the two countries would guarantee to import Japanese woollen manufactures, in return for Japan’s purchases of raw wool from these sources. This was a similar idea to the bilateral processing arrangements in which the Australian government had expressed no interest.

SCAP’s main concern lay in offsetting Japanese purchases of raw materials through export sales of finished goods to maintain a strict balance of trade rather than expanding the levels of industrial production and domestic consumption. While Menzies had already noticed by December 1948 SCAP’s growing inclination towards a bilateral approach to sterling trade particularly at the administrative level as a ‘disquieting factor’ which was against the spirit of the Sterling Trade Arrangement, such a desperate approach as was adopted by the SCAP officials did reflect Japan’s critical sterling cash position. In fact, Cleveland even withdrew his previous approval of the procurement of Indian and Pakistani raw cotton, to which he had given higher priority than raw wool.

41 Memorandum by Menzies, 17 December 1948, op. cit.
42 S. Aiba, Director, Textile Boeki Kodan, ‘Sterling Payment Arrangement and Exchange Manipulation’, 24 February 1949, SCAP, 6707(9), ESS(A)05092.
43 From R.D. Cleaves, Chief, Textile Division, ESS, to Pickelle, 5 July 1949, ibid.
44 Menzies to DCA, 17 December 1948, R40/1/80. This memorandum by Menzies is a different one from the previously cited memorandum by Menzies of the same date.
WAIVER OF CONVERTIBILITY

In order to overcome Japan's sterling shortage problem, Norman Young of the UK Treasury was sent to Tokyo to discuss the matter with Cleveland in late December 1948. At the meeting, Cleveland showed a more optimistic view concerning SCAP's sterling position, admitting that SCAP's sterling shortage was 'not likely to be a regular occurrence but was merely an isolated instance'. Cleveland also withdrew his earlier request for an overdraft and longer-term loans. With regard to the normal short-term credit by the banks, however, he rejected the option of a dollar swap which London preferred, as a 'wasteful use of his [SCAP's] dollars which he would use elsewhere'. From the discussions with Cleveland, Young drew the conclusion that the only means of preventing a further contraction of trade was an additional grant of £6 million of sterling credit to SCAP, which Young observed the British banks did not show much interest in offering.45

Young's conclusion prompted the next move by the sterling participants. On 27 January 1949, Thomas, Financial Advisor to the UKLM, proposed that SCAP's 'accumulation of sterling as a result of increased buying by the sterling area' could provide an alternative solution to increased bank credit. In order to dispel any fear of dollar conversion of SCAP's sterling funds arising from additional purchases by the participants from Japan, Thomas suggested that SCAP should temporarily forego the right of converting its sterling surplus accrued as of 30 June 1949 and agree to reserve such balance for future procurement from the sterling area countries.46 Underlying this proposal was the observation that SCAP might overcome the 'hump' of sterling shortage in March within the scope of the existing 120 days credits, in view of the sign of SCAP's postponement of reimbursement of the debts which it had incurred through government deals before the Overall Payments Agreement.47

45 Sterling Area Working Party, Tokyo, 'Minutes of the Seventh Meeting', 30 December 1948, R40/1/80; UKLM, 'Memorandum for the Supreme Commander on matters discussed by Mr. Norman Young in Tokyo', 11 January 1949, SCAP, 6707(9), ESS(A)05092. The delegates of the sterling area countries participating in the Sterling Trade Arrangement established the Sterling Area Working Party in Tokyo in November 1948 to exchange information on each member's management of Japanese trade under the Arrangement and to check any excessive trade imbalance.
47 Menzies to DCA, 3 February 1949, ibid.
On 5 February 1949, SCAP quickly responded favourably to the proposal of waiving the exercise of conversion before 31 December 1949 in anticipation of an expansion of trade.\textsuperscript{48} Thomas had directly approached the Chief of ESS in presenting the waiver proposal, and on this occasion, Marquat had been 'extremely cooperative'.\textsuperscript{49} There is no document to suggest whether this approach to appeal to SCAP's higher ranking officials was a tactical move to bypass the cautious view on expansion of sterling trade held by the Fund Control Division and the resultant bureaucratic conflicts with the Foreign Trade and Commerce Division or a mere coincidence due to the absence of Cleveland who had left for Washington from late January. When there emerged an impasse in the negotiations, the sterling delegates tried to approach directly SCAP's higher ranking officials such as Marquat or even MacArthur, who were more receptive to the plea by the sterling area for trade promotion than the administrative officials, particularly in charge of sterling fund control.

Cleveland's absence would certainly have strengthened the position of the Foreign Trade and Commerce Division which had already considered the waiver of convertibility as early as November 1947, in anticipation of SCAP's sterling surplus resulting from the inclusion of cotton textiles in the Overall Payments Agreement. According to Pickelle, the existence of the dollar convertibility clause would not entice the sterling area countries to relax their tight import licensing on Japanese goods and accordingly would 'dramatically limit' Japan's sterling trade. Hence, another step had to be taken to reach an agreement with the sterling area to minimise the risk of a dollar drain. Pickelle's proposal was to establish a 'ceiling' below which SCAP would forego the right to convert its sterling balance into dollars.\textsuperscript{50} Without its Chief, the Fund Control Division also gave approval to the waiver of convertibility on the grounds that a large volume of procurement from the sterling area was envisaged in the purchase program for the second half of 1949, and SCAP's sterling surplus would duly be consumed before the end of the year.\textsuperscript{51}

\textsuperscript{48} Marquat to Thomas, 5 February 1949, \textit{ibid.}
\textsuperscript{49} Sterling Area Working Party, 'Minutes of the Tenth Meeting', 3 February 1949, \textit{ibid.}
\textsuperscript{50} Pickelle to Marquat, 'Sterling Agreement with the British', 1 November 1947, SCAP, 6707(9), ESS(A)05093.
\textsuperscript{51} Fund Control Division, 'Memorandum for Record', 4 February 1949, SCAP, 6768(5), ESS(C)06101.
SCAP DRIFTING AWAY FROM STERLING TRADE?

The waiver of conversion of SCAP’s sterling surplus into dollars certainly brought about a solution to its sterling credit problem, as its cash position was improved so considerably that Menzies had the impression that the Fund Control Division might loosen the ‘purse strings a little’. In the Sterling Area Trade Review Conference which was convened between the SCAP officials and the sterling participants in Tokyo from late March to early April to discuss the revised estimates of the Trade Plan, however, the sterling delegates expressed their dissatisfaction with SCAP’s approach towards not only sterling trade but also Japan’s general trade strategy. Already ‘perturbed’ by the ‘unnecessarily restrictive’ policy of the Fund Control Division for purchases from the sterling area, the sterling representatives urged Cleveland to look more to prospective purchases in the future by the participants and to be less concerned about the outstanding credit in SCAP’s account. Cleveland responded that his serious concern about SCAP’s sterling position in the previous autumn had been dispelled and revealed his preparedness to balance the accounts by issuing import approvals more freely. In fact, SCAP had already released $12 million for wool purchases in early March and according to the SCAP figures presented at the Conference, Menzies confidently predicted further sales of 80,000 bales of Australian wool to Japan at $19 million, rejecting the Canberra estimate of $11 million as ‘unduly low’. To be sure, taking into consideration SCAP’s sterling position had sharply improved, Menzies might have been right in calculating these optimistic figures.

However, concerns had been growing among the sterling delegates over SCAP’s sterling trade policy which was to undermine Menzies’ calculation. They denounced SCAP’s inclination to make specific purchases from the sterling area on the condition of counterveiling purchases from Japan, citing the flat disapproval of barter trade by

52 Menzies to DCA, 4 March 1949, R40/1/80.
54 Sterling Area Trade review Conference, ‘Plenary Meeting–March 21st 1949: Statement Made by Mr. Thomas in Regard to Barter’, R40/1/83.
55 Sterling Area Trade Review Conference, ‘Minutes of Meeting Held at Forrestry Building at 2:00pm on Monday, April 11th 1949’, ibid.
56 Cable from AM to Canberra, no.146, 11 April 1949, R40/1/74.
MacAurther. They also accused certain SCAP officials of attempting to 'short-circuit' the Sterling Trade Arrangement, pointing out the announcement of the Japanese Board of Trade that it would only authorise the purchase of UK wool tops through the Hong Kong open account. The biggest concern of the participants was their impression that 'among the commodity men in General Headquarters there was a definite tendency to divert purchases away from the Sterling Area in order to make bilateral and open account arrangement purchases'. According to J.H. Ewing, Head of the Purchasing and Selling Section, UKLM, SCAP officials told him repeatedly 'we must buy from such and such a country because we do not have to pay any money'. Criticising SCAP's complacency as the sterling position improved, the sterling delegates countered that the Japanese economy was more dependent on the sterling area for markets and supplies than the sterling area economies on Japan. Since the closure of supplies from the Chinese continent would increase Japanese demand for raw materials from the sterling area, SCAP officials were told not to be 'misled' by the existing huge demand for Japanese textiles which the participants insisted was not normal and had already started dwindling.

The concern of the sterling delegates was not without basis. In fact, during the period from mid 1948 to 1949 SCAP rushed to conclude a number of bilateral trade and payments agreements with other countries. In particular, many of these were established as a result of SCAP's mission to Latin American countries for the purpose of restoring Japan's trade with the area. The number of bilateral agreements concluded by SCAP during the period from the conclusion of the Sterling Trade Arrangement in November 1948 to the end of 1949 increased from 3 to 20. Since bilateral agreements usually aimed at balancing trade, as was the case with the Sterling Trade Arrangement, such a rapid increase in the number of arrangements would mean a reduced share of trade for the sterling area unless the total Japanese trade volume recorded a remarkable growth.

In fact, in his policy paper of July which developed arguments against the cancellation of the dollar convertibility clause of the Overall Payments Agreement, Marquat asserted:

---

57 Sterling Area Trade Review Conference, 'Plenary Meeting--March 21st 1949 ...', op.cit.
58 Sterling Area Trade Review Conference, 'Minutes of Meeting ... April 11th 1949', op.cit.
59 Sterling Area Trade Review Conference, 'Plenary Meeting--March 21st 1949 ...', op.cit.
60 Between April and June 1949, SCAP sent the trade mission to Latin America and concluded a series of trade arrangements with Latin American countries; Argentina, Brazil, Chile, Columbia, Mexico, Peru, Uruguay and Venezuela.
The British claim that Japan cannot maximize its trade with the sterling area if she continues negotiating bilateral arrangements with other countries is an untenable position. The trade arrangements negotiated by SCAP in respect to Occupied Japan provide for trade to be balanced at maximum levels. If certain goods are available from ‘trade arrangements countries’ under terms and conditions more favorable than those applying in the sterling area then purchases should be made from these sources. This will reduce the level of trade with the sterling area but will not reduce the overall export trade of Japan. Again it is not desirable for Japan to direct her foreign trade into sterling channels. In the interest of sale (sic, ‘safe’?) guarding her future she should expand her trading areas in order not to be dependent upon any single country.\[^{51}\]

Since this policy paper was drafted by the Foreign Trade and Commerce Division, it would be natural to deduce that Pickelle had participated in shaping the underlying idea. This paper is in contrast with his memorandum of August 1948 in which he recommended removal of the dollar convertibility clause after the Japanese government established a foreign exchange control authority capable of checking excessive accumulation of sterling. Pickelle thought that the removal would bring increased exports to the sterling area which he expected would change Japan’s status from a ‘hard currency’ to a ‘soft currency’ source.\[^{62}\] At that stage, Pickelle was desperate to obtain export earnings from any source, provided that they could be used to finance raw material imports to sustain the developing operation of Japanese industries. Later on, however, the availability of raw cotton from the sterling area was found to be far below the level of Japanese requirement. Moreover, the sterling area countries had not shown any sign of classifying Japan as a ‘soft currency’ source the import licensing affecting which would have been considerably relaxed. As a result, Japanese exports of less essential goods to the sterling area remained depressed. For example, despite SCAP’s high expectation, a large part of the sterling area was not prepared to increase imports of Japanese woollen products to a level where the sterling procurement of raw wool could be reasonably justified.

A further explanation of SCAP’s dwindling interest in the development of sterling trade can be found within the Fund Control Division. In defence of the expansion of bilateral trade arrangements with various countries, Cleveland raised concerns about the ‘growing and continual scarcity of dollars’. Listing various factors causing Japan’s dollar

\[^{51}\] Marquat to Chief of Staff, ‘Sterling Area-Occupied Japan Trade agreement’, 19 July 1949, SCAP, 6734(25), ESS(A)05419.

\[^{62}\] Pickelle, ‘Sterling Trade Arrangements’, 16 August 1948, SCAP, 6735(13), ESS(A)05439.
shortage, he pointed out that the economic pressures would make 'sales to the Sterling Area more attractive from a business point of view and sales to dollar areas less attractive'. Here 'economic pressures' meant inflation within the sterling area and the application of an overvalued official sterling-dollar exchange rate of $4.03 which had allowed Japanese goods to be sold at better prices in sterling markets than in dollar markets. Furthermore, inflation had also made the prices of imported sterling commodities dearer. The development of a network of bilateral arrangements would give SCAP a handy leverage to withstand such pressure and to gain benefits for Japan by obtaining essential raw materials and foodstuffs at cheaper prices and opening new markets for manufactures in less demand in the sterling area. Thus there was bipartisan agreement between the Foreign Trade and Commerce Division and the Fund Control Division with respect to the fundamental need to develop the network of bilateral trade and payments agreements even at the cost of the expansion of sterling trade.

DISCORD OVER THE WAIVER OF CONVERTIBILITY

Reflecting SCAP's waning interest in procurement from the sterling area, the participants' sales to Japan had been so sluggish in the first half of 1949 that they had accumulated an enormous trade deficit with Japan by late May. At that stage, it was calculated that SCAP would have a $32 million sterling surplus before 30 June 1949. The sterling delegates in Tokyo were alarmed at the figure and reported the matter to London, warning that unless the sterling area pressed SCAP immediately it might become impossible, without drastic curtailment of the participants' purchases from Japan, to wipe off the trade deficit by 31 December when SCAP would convert its sterling funds in hand into dollars.

London made an interesting response to this report. Doubting that SCAP could buy an amount corresponding to the deficit of the participants within the next twelve months, London instructed its Tokyo representatives only to convey to SCAP the UK's grave concern about the existing situation and for the moment just to watch SCAP's next move.

63 Memorandum by an ESS official named 'Terry' regarding his discussion with Cleveland on open accounts arrangements, 6 June 1949, SCAP, 6442(26), ESS(B)03588.
64 Hunt to Marquat, 'SCAP's Sterling Purchases', 30 May 1949, R40/1/80.
65 Cable from UKLM to FO, no.570, 24 May 1949, ibid.
66 Cable from FO to UKLM, no.457, 3 June 1949, ibid.
The Tokyo delegates were frustrated at London's complacent response which 'apparently did not view the imbalance with such great concern' as they did.67 According to Menzies, London seemed to 'contemplate with some pleasure the large state of imbalance as they thought it might give us additional bargaining power for the forthcoming negotiations'. It was 1 July when London thought that the time was 'ripe' for some remedial action and decided to apply stricter tests in giving approval to all imports for home consumption, particularly cotton textiles.68 Accordingly, the UKLM reported to SCAP that the British government would temporarily suspend the issuing of import licences to Japanese goods.69 It was on the occasion of handing this decision to a SCAP official that an extraordinary incident happened.

Having received the memorandum of 1 July, Peter McDermott, Director of Trade and Services, told Lingeman that SCAP would see this development 'as a tactical move designed to induce him to waive convertibility during the forthcoming negotiations'. McDermott expressed his conviction that Washington would never agree to a further waiver of convertibility and moreover would request 'a direct dollar contribution to the cost of dollar cotton' for purchasing Japanese cotton textiles.70 In May, Cleveland had referred to Washington's pressure to seek dollars in Japan's sterling trade, and at that time he had stated that 'this was no way to treat the Sterling Area'.71 On this occasion in July, McDermott who had just returned from the United States showed no hesitation in stressing the 'sacrosanct character' of the dollar convertibility clause.

This time London's reaction was quick and unequivocal. The UK government instructed the UKLM to obtain from MacArthur himself a 'clarification' of his attitude to this question, in view of the huge gap that existed in the understanding of the fundamental principles of the Sterling Trade Arrangement between McDermott and the sterling participants. If SCAP's official policy was to earn dollars from trade with the sterling area as McDermott had suggested, London was even inclined to reconsider seriously the benefits

67 Menzies to DCA, 4 June 1949, ibid.
68 Menzies to DCA, 1 July 1949, ibid.
69 Lingeman to Marquat, 1 July 1949, R40/1/88.
70 Sterling Area Working Party, 'Minutes of the Thirtieth Meeting', 7 July 1949, R40/1/88. The Director of Trade and Services was directly responsible to the Chief of ESS for coordination of SCAP's overall trade policy for Japan.
71 Cable from UKLM to FO, no.571, 24 May 1949, R40/1/80.
of continuing not only the negotiations for a 1949/50 Sterling Trade Arrangement but also the Overall Payments Agreement. Thus London ruled that the departure of the UK negotiators to Tokyo be deferred pending MacArthur's reply.\(^{72}\)

The meeting between MacArthur and the Acting Head of UKLM was held on 11 July. At the same time, Lingeman approached Marquat with 'purely personal suggestions'. Lingeman pointed out that if SCAP was 'determined to make any leeway in his [SCAP's] purchases resulting in a deficit for the sterling area, it would be 'always open to him [SCAP]' to eliminate the dollar convertibility clause'. In exchange for the waiver of convertibility, London was prepared to grant SCAP the facility of administrative transferability.\(^{73}\) However, Marquat revealed quite an ambiguous attitude to the waiver of dollar convertibility. Although Marquat admitted SCAP's need to reserve a certain amount of sterling surplus as of 31 December as working capital, he also predicted Washington's disapproval of this measure.\(^{74}\)

Marquat's stance was understandable because SCAP had been under enormous pressure from Washington to spend all dollar appropriations in the United States even 'regardless of competitive factors' for the benefit of American taxpayers who had sustained the Japanese economy.\(^{75}\) SCAP's increasing interest in expansion of trade with the bilateral arrangement countries such as those in Latin America and Washington's pressure for dollar payment for Japanese cotton textile exports inclined the SCAP officials towards diversion of Japanese trade away from the sterling area.

It was MacArthur who saved this critical situation. MacArthur unequivocally denounced his intention to convert SCAP's sterling surplus into dollars. According to the UKLM:

[MacArthur] said that he fully understood and sympathised with the dollar difficulties of the United Kingdom. Nothing was further from his thoughts than to 'squeeze' us for dollars which we did not have. He maintained that despite the inclusion of the convertibility clause in the Sterling Area Trade Arrangement, it

\(^{72}\) Cable from FO to UKLM, no.DRIVE 529, 8 July 1949, R40/1/88.
\(^{73}\) Lingeman to Marquat, 11 July 1949, ibid. If a country was given administrative transferability, the country would be authorised to transfer its sterling balance to purchases from any other countries subject to approval of the British exchange control authority. At this stage, Japan was classified as a 'bilateral account country' which would be allowed to use its sterling balance only in the sterling area, due to the dollar convertibility clause.
\(^{74}\) Cable from UKLM to FO, no.DRIVE 752, 11 July 1949, ibid.
\(^{75}\) Cable from UKLM to FO, no.REMAC 111, 11 July 1949, ibid.
had never been his intention to invoke it. At the time when the Arrangement was being negotiated he told someone ... that though this clause had to be written into the Agreement to satisfy potential critics in Washington, he himself never intended to make use of it.\footnote{Cable from UKLM to FO. no.DRIVE 751, 12 July 1949, \textit{ibid.}}

MacArthur further endorsed his intention of not looking to the sterling area as a source of dollars in SCAP’s official memorandum of 22 July. MacArthur rejected the suggestion that the whole dollar convertibility clause be removed from the Overall Payments Agreement, and instead urged the sterling participants to increase availability of their commodities for Japan so as to offset their outstanding deficits with Japan.\footnote{SCAP to Gascoigne, ‘Japan’s Trade with the Sterling Area’, 22 July 1949, SCAP, 6768(5), ESSC(C)06099.} After Marquat had agreed to the waiver of convertibility before 31 December 1949 in February, Washington accepted the SCAP decision on condition that this was not a waiver but an ‘extension’ and the right of conversion should be retained for emergencies.\footnote{Radiogram from Washington to SCAP, W-86896, 9 April 1949, SCAP, 6768(5), ESS(C)06101.}

MacArthur’s sympathetic reply worked to relieve London’s doubts and the UK delegates were instructed to leave for Tokyo on 21 July.\footnote{Cable from Crosec to Canberra, no.13, 25 July 1949, R40/1/83.} Again the deadlock in the sterling trade negotiations was solved by bringing the matter to a higher level in the SCAP bureaucracy, as had been the case with Thomas’ direct approach to Marquat in February. This suggests that the high ranking SCAP officials were conscious of the long-term political significance of rehabilitating Japanese trade relations with the sterling area. Especially in view of Marquat’s hesitation to endorse the waiver of convertibility under Washington’s pressure, it seems to have been MacArthur himself who took the initiative in issuing the assurance on not seeking dollars from the sterling participants in July, from the highly political viewpoint of facilitating the occupation goal of Japan’s economic recovery. If US aid had to be used in the most economical way, as requested by Washington and advocated by some SCAP lower ranking financial specialists, it would have been in SCAP’s interest to save dollars as much as possible by concentrating Japanese exports of cotton textiles on dollar markets where export competition was extremely tough or even by exercising the right to convert sterling funds into dollars. Such an approach, however, would certainly have jeopardised promotion of Japan’s sterling trade, for the sterling area countries would
have been forced to cease purchases of Japanese goods for fear of a dollar drain. This would have resulted in a drastic reduction of Japan’s overall exports and accordingly disrupted industrial operations, hampering the achievement of the occupation objectives. Trade with the sterling area, especially export trade, was too large for the Japanese industries to risk. In this sense, MacArthur’s decision assisted the Japanese economic recovery.

The anxiety about dollar conversion eased temporarily. There still remained the difficult task for the sterling delegates of persuading the SCAP officials to purchase more from the sterling area, once the question returned to specific issues of commodity procurements in the subsequent negotiations for a 1949/50 Sterling Trade Arrangement which was to replace the 1948/49 Arrangement that had lapsed in 30 June 1949.

STERLING TRADE ARRANGEMENT AT BAY

From the outset of the negotiations in early August, SCAP’s purchasing prospects appeared bleak. Again it was wool that the sterling area expected to sell as the chief export commodity. The situation was more serious than the previous year for Australia as well as the other participants which depended on Australia to earn purchasing power from Japan, because this time Canberra could not find any surplus wheat to be shipped to Japan before the end of the year, as it had done to make up for the reduced wool figures in the 1948/49 Trade Plan.\(^{80}\) SCAP’s wool requirements at this time, were only 100,000 bales which was less than the volume of the previous year. Expressing disappointment at the low figure, the sterling delegates insisted that the sterling area ‘needed to sell the maximum possible amount of wool to SCAP’.\(^ {81}\) SCAP officials explained that the small figure of Japan’s ‘maximum’ wool requirement of $22.2 million, as against the ‘minimum’ offer of $30 million by the participants, derived from ‘disappointingly small’ woollen exports and the rising interest in purchasing South American wool. As explained in Chapter 3, competitive prices of South American wool had attracted SCAP officials, and they envisaged developing South American markets as a promising outlet for Japanese woollen manufactures. In

---

81 Sterling Trade Arrangement Conference, ‘Notes of 1st Meeting’, 2 August 1949, ibid.
addition, the bilateral trade arrangements with South American countries enabled Japan to import raw cotton which could be paid for in export goods without any dollar spending.\(^{82}\)

SCAP's low estimate did not mean that the Japanese industries had a limited demand for raw wool. The operation level of the Japanese wool textile mills was still only about 20 per cent at that time. Since the clothing of the Japanese people was still in a poor state, as Menzies observed, there really seemed to be considerable demand for woollen textiles in the Japanese domestic market. So once the Japanese could convince SCAP of their urgent need for not only food but also clothing, it would be much easier to balance trade between Japan and the sterling area at the highest possible level through active procurement of Australian wool. Menzies saw that there was a 'strong body of opinion' even among some SCAP officials in support of such an argument.\(^{83}\)

In reality, however, while SCAP had completed purchasing wool from Australia up to the volume prescribed in the 1948/49 Trade Plan by July 1949,\(^{84}\) the Textile Division had a large amount of wool stocks in hand, and this kept SCAP's estimates of wool requirement at an extremely low level.\(^{85}\) This suggests that SCAP still maintained its policy to utilise imported raw wool mainly for woollen exports which still remained at a low level. SCAP adopted the same principle as for cotton, that imports of raw materials should be offset as much as possible by exports of finished goods in order to make the most efficient use of Japan's scarce foreign currencies, which were mainly spent on procurement of foodstuffs from overseas. As long as SCAP took such an approach to sterling trade, especially wool imports, there was little prospect of expansion of sterling trade and recovery of Japanese industrial activities.

In an attempt to raise the volume of SCAP's purchase program, the sterling delegates asked SCAP to procure Japan's whole requirements of rubber exclusively from the sterling area. Pickelle was unimpressed with the proposal because he found it 'not to the advantage of Japan (or the United States) to place the British in a position where they are the sole supplier of crude rubber since such controls would permit them to dictate prices'.\(^{86}\) He was

\(^{82}\) Pickelle to Marquat, 'Summary of Sterling Area-Occupied Japan Trade Discussions. 2–3 August', 3 August 1949, SCAP, 6768(6), ESS(C)06104.

\(^{83}\) Menzies to DCA, 1 July 1949, R40/1/88.

\(^{84}\) Menzies to DCA, 29 July 1949, ibid.

\(^{85}\) Cable from AM to Canberra, no.310, 'Negotiations', 4 August 1949, R40/1/83.

\(^{86}\) Pickelle to Marquat, 'Summary of Sterling Area-Occupied Japan Trade Discussions. 2-3 August', op.cit.
interested in maintaining trade with Indonesia centred on Japan’s rubber imports, as Indonesia was expected to be a good export market allowing Japan to earn dollars.

The difficulty facing the sterling participants was further aggravated by their inability to supply an adequate amount of raw cotton. There was a wide gap in the figures between SCAP requirements and the participants’ offer.87 The low availability from the sterling area would further direct SCAP’s purchases of raw cotton towards the United States. In fact, SCAP officials were aware of specific problems in raw cotton produced in the sterling area. From the commercial viewpoint, its price was still dearer than dollar cotton.88 Moreover, the Indian supply was largely made up of short staple cotton for which the Textile Division found only a limited range of use for technical reasons, and India could not avail the Japanese mills of preferred medium staple cotton.89 In view of the limited cotton availability, SCAP had to consider imposing some ‘ceiling’ on Japanese exports of cotton textiles to the sterling area to allocate more textiles for export to the dollar area to facilitate financing the procurement of dollar cotton.90 The United Kingdom representatives were not particularly shocked at SCAP’s reference to the possibility of limiting purchases of cotton textiles, which had been a strategic item in early postwar Japanese trade, and they even suggested a prospective fall in demand in the subsequent year.91

This development implies two important trends in the sterling trade negotiations. Firstly, the United Kingdom became less desperate to obtain manufactured goods in short supply such as cotton textiles from Japan. The British approach to Japanese trade was to lay more emphasis on protecting domestic industry from Japanese competition. As a result, a rift gradually developed between the UK and the other sterling participants over the level

---

87 Sterling Trade Arrangement Conference, ‘Notes of 1st Meeting’, 2 August 1949, R40/1/83.
88 Menzies to DCA, 1 July 1949, op.cit.
89 Sterling Trade Arrangement Conference, ‘Notes of 3rd Meeting’, 4 August 1949, R40/1/83.
90 Sterling Trade Arrangement Conference, ‘Notes of 2nd Meeting’, 3 August 1949, ibid. There was another reason for SCAP to restrain the sales of cotton textiles to the sterling area. The Textile Division was concerned about the fact that a large volume of Japanese cotton textiles had been sold in sterling to the entrepots in the area such as Aden, Singapore, and the United Kingdom from where they were re-exported to the non-sterling area. In particular, Manchester was processing cheaper Japanese grey cotton to export the finished goods to the European continent, thus creating tougher competition for Japanese textiles in these markets. In addition to elimination of entrepot trade from the Sterling Trade Arrangement, the Division recommended establishing quotas for cotton textile exports to the above destinations. C.C. Campbell, Acting Chief, Textile Division to Pickelle, ‘Entrepot and Reprocessing Trade with Sterling Area’, 17 August 1949, SCAP, 6734(25), ESS(A)05418.
91 Sterling Trade Arrangement Conference, ‘Notes of 2nd Meeting’, R40/1/83.
and allocation of purchasing power of Japanese industrial goods. Secondly, SCAP also became less desperate in seeking raw cotton from the sterling area as an alternative source of supply and placed more emphasis on procurement of foodstuffs from the sterling area.

The inability of the participants to supply Japan with attractive commodities did not augur well for the 1949/50 sterling trade negotiations. Particularly SCAP's conservative estimates of its requirements from the sterling area were such that the British negotiators even felt it 'pointless' to stay in Tokyo to tackle SCAP's 'minute' requirements. In the informal meeting with the UK delegates of 13 September, Pickelle revealed his estimate of purchases during the financial year 1949/50 at $118 million. After deducting from this sum the outstanding deficits in trade with Japan during the financial year 1948/49 and the carryover of Japan's unfulfilled purchases from the previous year, this figure would leave virtually no new purchasing power for the sterling area. Thus an absolutely unacceptable situation would have arisen where all the participants would have had to stop buying from Japan. Pickelle informed the sterling delegates that Marquat had authorised him to raise the SCAP purchase figure to $160 million. The fact that the Chief of ESS involved himself in issuing the new estimate suggests that this was just a tactical move to show SCAP's desire to prevent a breakdown in the negotiations rather than any sign of SCAP's rising interest in sterling purchases. In fact, the sterling delegates found that the figure of $160 million was still disappointingly small, but they had no alternative but to console themselves that this was the best figure that they could obtain.

While the sterling delegates had no choice but desperately to push SCAP towards expansion of purchases, the SCAP officials responded with the argument that the existing predicament derived from 'overbuying' by certain participants. The sterling delegates countered that the remedy to the situation should be sought in the Sterling Trade Arrangement provision for automatic balancing of purchases where each party undertook to 'expend on imports from the other party the full amount of the proceeds from exports to

---

92 Meeting of the Sterling Area Representatives, Tokyo, 14 September 1949, R40/1/90.
94 Meeting of the Sterling Area Representatives, 14 September 1949, op.cit.
95 Meeting of the Sterling Area Representatives, 15 September 1949, ibid.
96 Sterling Trade Arrangement Conference, 'Committee of the Whole', 14 September 1949, op.cit.
that party’. The participants’ view was that ‘overbuying’ could not occur because the provision ruled that the trade should be balanced. Some SCAP officials were even inclined to interpret it as obligating each party to purchase only up to the level of the estimates in the Trade Plan. It is noteworthy that a year later the situation had completely reversed; parties changed sides entirely in repeating similar arguments concerning overbuying by SCAP this time.

With no chance of reversing SCAP’s attitude to purchases from the sterling area, it seemed inevitable for SCAP to reserve a certain amount of sterling surplus beyond 31 December when the undertaking not to convert its sterling balance into dollars was to expire. So the key to the success of the negotiations rested much on SCAP’s commitment to waive the convertibility clause. The sterling delegates had already seen that the atmosphere inside SCAP ruled out any further waiver of convertibility as ‘unthinkable’. The only assurance which they could get in early September was that SCAP had no desire to invoke the convertibility clause except at a time of emergency such as the devaluation of the pound sterling, which had been rumoured would happen soon.

Faced with the imminent danger of incurring dollar liability from Japanese trade, London made the most extreme response. The UK government conveyed to the Tokyo representatives its readiness to give serious consideration to terminating the Overall Payments Agreement and bringing Japanese trade back to an ‘uncamouflaged dollar basis’. That would mean the introduction of tougher import licensing on Japanese goods, which might culminate in a virtual closure of Japan’s trade with the sterling area. As long as London was determined not to allow any dollar liability in Japanese trade, the fate of the Sterling Trade Arrangement and expansion of Japan’s sterling trade hinged on whether SCAP would give an unequivocal assurance of non-conversion of its sterling funds, even on the occasion of a drastic devaluation of the pound sterling. This would dispel London’s serious concern. However, SCAP disclosed its intention to convert its sterling surplus into dollars in the case of devaluation of the pound sterling.

98 Cable from AM to Canberra, no.340, ‘Negotiations 4’, 3 September 1949, ibid.
99 Cable from UKLM to FO, no.DRIVE 789, 19 July 1949, R40/1/88.
101 Cable from AM to Canberra, no.350, ‘Negotiations 5’, 15 September 1949, R40/1/83.
This was a prime example of its conservative approach to sterling trade during the period from 1948 to mid 1949. SCAP did not show as much interest in expansion of Japan's sterling trade as the sterling area countries which had active demand for imports of essential goods from Japan, particularly cotton textiles. In order to minimise the financial constraint in sterling trade, SCAP concluded the Overall Payments Agreement, stipulating the principle of all trade on a sterling basis in May 1948. When cotton textiles became available from Japan in sterling in June, further trade expansion seemed promising. The four sterling area countries including Australia duly participated in the negotiations with SCAP for a Sterling Trade Arrangement to minimise the restrictive effects of a bilateral trade arrangement and to balance Japan's sterling trade at the highest possible level. The Sterling Trade Arrangement was expected to lubricate Japan's sterling trade by introducing the system for more multilateral financial settlement of trade under which Australia's bilateral trade surplus through its sales of wool and foodstuffs would provide the other sterling participants with purchasing power for Japanese goods.

Initially, however, SCAP was quite slow to authorise imports from the sterling area due to the conservative approach adopted by the Fund Control Division and ESS's rising interest in the promotion of Japanese trade with Latin American countries. SCAP's sluggish procurement policy from the sterling area affected Australia's sales to Japan and SCAP accumulated sterling surpluses as the sterling participants maintained active purchases of Japanese goods centred on cotton textiles. In order to dissipate the fear of the sterling participants over SCAP's intention to invoke the dollar convertibility clause of the Overall Payments Agreement, SCAP agreed not to convert its sterling surplus. Despite the cooperative attitude revealed by Marquat in giving the guarantee of non-conversion in February 1949, SCAP was least interested in raising the level of Japan's purchases from the sterling area in the negotiations for the 1949/50 Trade Plan. In July 1949, even Marquat hesitated to give a clear assurance not to convert SCAP's sterling funds which had been left idle through inactive purchases. The SCAP officials were concerned about Washington's stricter approach to the handling of SCAP's sterling funds mainly earned from textiles produced from dollar cotton. As rumour of a sterling devaluation gathered strength around September, SCAP seemed to have abandoned the hope of promoting trade, being
determined to convert its sterling surplus into dollars to safeguard against the possible depreciation of its assets.

The lack of SCAP’s interest in expansion of sterling trade derived from its concern about saving foreign currencies, especially dollars under pressure from Washington. Hence, it emphasised counterveiling imports of woollen fabrics by Australia in return for purchases of raw wool. SCAP also tried to cultivate commercial networks with South American countries, because there commodities were cheaper than in the sterling area and they had more demand for less essential Japanese goods which the sterling area was not prepared to import. SCAP did not worry about contraction of Japan’s exports to the sterling area, a large part of which consisted of cotton textiles that could have earned more dollars if diverted into the dollar markets. This chapter has shown that so long as SCAP emphasised maintaining a sound foreign currency position, Japan and the sterling area could not hope for expansion of trade even under the multilateral settlement system in soft currency provided by the Overall Payments Agreement and the Sterling Trade Arrangement.

SCAP’s conservative approach towards sterling trade, was to change dramatically in the event of the devaluation of pound sterling in September 1949, at which time SCAP did not, in fact, claim conversion of sterling funds into dollars. The next chapter discusses SCAP’s rising interest in procurements from the sterling area from the devaluation to 1950 onwards.
5 SCAP Increases Food Procurement in Sterling, 1949–50

September 1949 saw a major turning point in postwar Japan’s sterling trade. In 1948/49 SCAP’s sluggish purchasing activity had hampered expansion of two-way trade between Japan and the participants in the Sterling Trade Arrangement. As the rumour of the pound’s devaluation prevailed, SCAP faced the important decision of whether or not it should run the risk of jeopardising promotion of Japan’s sterling trade by claiming conversion of its sterling surplus into dollars in accordance with the provision of the Overall Payments Agreement. In the end, SCAP did not convert its sterling funds with the pound’s devaluation in September 1949, to the relief of the sterling participants who had been alarmed at the possibility of a dollar liability. In fact, SCAP displayed a desire to expand sterling trade in the negotiations for a 1949/50 Sterling Trade Arrangement.

This chapter highlights the increasing interest in food procurement from non-dollar sources, as the main reason for SCAP’s decision to retain sterling funds even in the event of the pound’s devaluation and its attempt to propose an extensive procurement program from the sterling area in the subsequent negotiations for a 1949/50 Trade Plan. The drastic curtailment of US aid to Japan was also a factor turning SCAP’s attention to developing Japan’s commercial links with non-dollar areas. Although SCAP tried to promote rice imports from Southeast Asia and to procure wheat through the International Wheat Agreement, these attempts were blocked by the British. As a result, the promotion of networks of bilateral trade arrangements became the sole instrument to secure increased food procurement from non-dollar sources. Under SCAP’s new policy for diversion of trade from dollar to sterling and other non-dollar sources, Australia came to play a significant role as one of the main suppliers of foodstuffs, particularly wheat, for Japan. Australia also functioned as a dynamo to Japan’s sterling trade, by providing the other sterling area countries with purchasing power for Japanese industrial goods through its huge bilateral trade surplus with Japan.
Once the Japanese occupation authority committed itself to a strategy for Japan’s economic self reliance through trade promotion on a more multilateral basis without depending on extra dollar supply, Japan’s sterling trade should have soon flourished. However, in an attempt to restrain SCAP’s increasing food procurement in sterling — for such increased procurement would decrease the share for the sterling consumers which might have been compelled to seek these foodstuffs by paying in dollars — the United Kingdom tried to keep trade with Japan under tight control. The negative British approach to relaxation of import licensing against Japanese goods resulted in the deterioration of SCAP’s sterling shortage caused by heavy seasonal purchases. Subsequently, SCAP’s fund controllers had no alternative but to introduce a suspension of purchases from the sterling area, which badly affected Australia’s export sales to Japan. The recovery of Japanese trading activities on a more multilateral basis created a divergence between the commercial interests of Britain and Australia.

**SCAP’S POSITIVE RESPONSE TO THE DEVALUATION OF THE POUND STERLING**

On 18 September 1949, the United Kingdom announced the devaluation of the pound sterling by 30 per cent. The other sterling area countries soon followed suit by devaluing their own currencies. Facing a grave situation, SCAP responded positively towards expansion of sterling trade. In his discussions with Sir Alvary Gascoinge, Head of the UKLM on the eve of the devaluation, MacArthur made it clear that he had no intention of asking the sterling area for dollars.¹

The sterling devaluation meant depreciation of SCAP’s sterling funds earned from sales of Japanese goods. A large part of the Japanese exports consisted of cotton textiles which were mostly made from American raw cotton purchased in dollars. If SCAP was to defend the value of its assets strictly, it should have claimed conversion of its sterling surplus before the 30 per cent devaluation, as it was entitled to according to the Overall Sterling Payments Agreement. In fact, SCAP had not concealed its intention to convert in early September. SCAP reported to Washington:

---

¹ Meeting of the Sterling Area Delegates, 23 September 1949, R40/1/90.
There is a definite understanding with the UK representatives that neither party to the Trade Arrangement will be a source of dollars to the other. However, devaluation of the currency of trade does create an emergency by reason of a threatened loss of purchasing power which we consider would warrant use of the emergency clause in the payments arrangement.2

The SCAP officials seem to have been really concerned about loss of assets which might be caused by the decision to retain SCAP's sterling surplus in the event of devaluation. In October after the devaluation, even Pickelle, Chief of the Foreign Trade and Commerce Division, who had shown the most positive attitude towards expansion of sterling trade, submitted to Cleveland, Head of the Fund Control Division and Controller of SCAP's foreign exchange funds, a proposal that the Overall Payments Agreement should be amended to include a guarantee from the UK Treasury that SCAP's sterling funds be duly compensated for loss resulting from a further devaluation of sterling. Cleveland's reply was mystifying, '[I]t may be possible to so change the OPA that the recommended guarantee becomes unnecessary'.3 In view of his past conservative approach to sterling trade, Cleveland might have had in mind withdrawal of the waiver of convertibility or even the introduction of dollar-based trade with the sterling area to forestall conversion in the event of any future devaluation. Pickelle's proposal and Cleveland's response illustrate the strong underlying force among the ESS officials advocating conversion as an emergency measure against the pound's devaluation.

In the light of this situation and Marquat's hesitation to give a clear assurance to Lingeman in July, as mentioned in the previous chapter, SCAP's non-conversion of its sterling funds seems to have been the outcome of MacArthur's own highly political decision. Why did MacArthur make such a decision? With regard to this question, there are so few SCAP documents that it is extremely difficult to ascertain the answer. The few SCAP documents referring to the pound's devaluation were all drafted after 17 September to justify the non-conversion of sterling and to negate the alleged ill-effects of the devaluation on Japanese export trade. The fact that there was little discussion of non-conversion before the devaluation further strengthens the assumption of an independent decision by MacArthur.

---

2 Radiogram from SCAP to Washington, no.C-52238, 1 September 1949, SCAP, 6768(6), ESS(C)06103.
3 Cleveland to Pickelle, 'Sterling Valuation Guarantee', 24 October 1949, 6768(6), ESS(C)06101.
There are two factors which explain the decision not to convert. Firstly, SCAP had started to show interest in the procurement of an increasing volume of commodities, especially foodstuffs, from the sterling area. In the informal meeting with the sterling delegates in late August, Pickelle pressed his counterparts for drastic increases in the supply of foodstuffs. In reply to the British argument that foodstuffs would not be oversold as they could earn dollars elsewhere, Pickelle hit back, arguing that sterling trade had already been limited by non-availability of Indian cotton and unless foodstuffs were made available for Japan, the desire of the participants for trade expansion would be seriously questioned.4

The sterling delegates responded favourably to Pickelle's argument. They showed their readiness to supply $30 million of foodstuffs in addition to the previous firm estimate of SCAP purchases to the order of $155 million. The additional foodstuffs included supplies from the non-participants in the Sterling Trade Arrangement, namely $18 million of Burmese rice and $11.5 million of Iraqi barley, as well as $1.5 million of Australian cereals. Since this meant the transfer of export opportunities of the participants to the non-participants, the offer revealed the participants' willingness to match SCAP's requirements. The participants further proposed exploration of the availability of an additional $30 million of Australian barley and Indian sugar to double SCAP's total purchases from the sterling area during the financial year 1948/49.5

Based on this offer, SCAP estimated total 1949/50 imports at $220.5 million and exports at $180.9 million, as against the 1948/49 achievements in sterling trade imports valued at $97.2 million and exports valued at $162.5 million.6 While SCAP's estimated deficit in 1949/50 was to be offset by the outstanding deficit of the participants carried over from the previous year, obviously it would be necessary for SCAP to retain some sterling cash, in order to proceed with this increased procurement program. Furthermore, Japan's purchases from the sterling area tended to concentrate in the October–December and the January–March quarters. Past experience had shown that SCAP would run short of sterling funds in these quarters, even though the annual sterling trade balance culminated in SCAP's favour.

4 Pickelle to Marquat, 'Sterling Area Trade Discussions', 28 August 1949, SCAP 6768(6), ESS(C)06103.
5 Commonwealth Delegations to SCAP, 31 August 1949, ibid.
6 Radiogram from SCAP to Washington, no.C-52288, op.cit.
In fact, SCAP’s sterling surplus of $40 million as of 30 June and of still about $35 million as of 31 August had rapidly decreased to approximately $23 million by 17 September, due to accelerated purchases from the sterling area in anticipation of the devaluation. The net balance of $23 million worth of sterling was not regarded as a situation where ‘there appeared to be no reasonable possibilities of utilizing net balances for purchases’, so that conversion into dollars was not justified.7

Secondly, with regard to the pound’s devaluation, Japanese domestic circles were more concerned about the ill-effects on export sales than depreciation of the value of SCAP’s sterling funds. Japanese industries, which already felt anxious about the official 360 yen to one dollar rate established in April, which they considered overvalued, were shocked at the pound’s devaluation.8 MITI made a plea for the application of the old exchange rate to Japan’s exports of uncompetitive heavy machinery to the sterling area countries which might cancel the contracts in preference for British products.9 Against the Japanese request for devaluation of the yen rate, however, SCAP ruled out any change.

A memorandum presented by the Program and Statistics Division of the ESS a couple of days after the devaluation of the pound recommended against devaluation of the Japanese yen.10 The memorandum stressed the merit of the pound’s devaluation in the prospective decreases in import prices of sterling commodities such as wool and foodstuffs. The strengthened price competitiveness of the sterling area would contribute to greater availability of these commodities for Japan. On the other hand, the ill-effects on Japanese export sales could be minimised by elimination of the premium prices for Japanese cotton textiles in the sterling markets and possible abolition of Japan’s export floor prices. These approaches were in line with the Dodge Plan for Japan’s economic self-reliance. In fact, as discussed in Chapter 2, the abolition of the floor price system for exports in October, as recommended by the Freile Mission, was one of the policies introduced to overcome the effects of the pound’s devaluation.11

7 Draft memorandum for SCAP, ‘Devaluation of the British Pound’, 19 September 1949, SCAP, 6321(10), ESS(B)02364.
8 Shiraishi, 1983, pp.77-78.
The Program and Statistics Division recommended the introduction of rationalisation programs for Japan's uncompetitive heavy and chemical industries which were likely to be seriously affected. The Division asserted that the pound's devaluation would even improve Japan's balance of payments position as a drop in import prices would have larger effects than the decrease in export earnings, and Japan's import trade would be diverted from the dollar to the sterling areas. Thus, devaluation of the Japanese yen was rejected, in view of the ill-effects on Japan's dollar position, the imminent need for industrial rationalisation, and the inflationary pressure which would be caused by a yen devaluation. These recommendations were duly endorsed as SCAP's official policy.12

If SCAP was to pursue export promotion to the sterling area with the 360 yen rate fixed, conversion of sterling funds into dollars before the devaluation was out of the question. Once sterling funds were converted into dollars by SCAP, it would be definitely remembered as a precedent. Thereafter, the sterling area countries would not relax their tight import licensing against Japanese goods, in order to forestall any risk of a further dollar drain from Japanese trade, no matter how SCAP reiterated its commitment to waive dollar convertibility. The result would be a drastic curtailment of Japanese exports to the sterling area which occupied a considerable share in the total export sales.13 As observed by the Australian Mission in Tokyo, it was unlikely that the sterling area would maintain the existing rate of purchases from Japan without obtaining extra purchasing power through export promotion by the devaluation. If the sterling participants reduced their imports from Japan, it would culminate in curtailment of Japan's purchasing power for sterling foodstuffs and raw materials 'without which Japan cannot subsist'.14 Such a situation would have meant a return to the situation in 1947 when Japan had enormous difficulty in financing imports of Australian wool, as shown in Chapter 3. The resultant shortage of raw materials would have caused serious disruption of Japanese industrial activities. It would have been too costly for Japan to risk the overall level of its sterling trade in an attempt to save the 30 per cent depreciation of sterling funds held by SCAP in the event of the pound's devaluation.

13 For example, cotton textile sales to the sterling area jumped up to 75.5 per cent of the total cotton textile exports in the first half of 1949 from 41.4 per cent in 1948. Nihon Boseki Kyokai, 1962, p.45.
14 Cable from AM to Canberra, no.353, 'Devaluation of Sterling', 20 September 1949, AA, CP553/1, 194/B/10/60.
The Japanese government seems to have been aware of the need to trade with the sterling area. In a memorandum of July to the ESS, MITI, which had been established in May, supported the idea of promoting sterling trade:

In order to increase Japanese imports from the Sterling Area with object of stimulating her sales to this Area in turn, it is considered necessary to purchase from the Sterling Area, commodities which may be dearer than those of non-Sterling Area. This apparent disadvantage must sometimes be borne by Japan for the sake of the long-range policy of maximising her trade with the Sterling Area (my emphasis).\(^\text{15}\)

This was a position similar to that of the Foreign Trade and Commerce Division. In order to advocate promotion of sterling trade even at the cost of short-term financial benefits, it would be in Japan's interest to withhold conversion of sterling, for the pound’s devaluation would bring to Japan dual benefits of maintaining export sales and lowering import prices.

Thus, the devaluation of the pound in September 1949 provided SCAP and the Japanese with the opportunity to reconfirm their commitment to the Dodge Line under which they had to seek Japan’s economic self-reliance without dependence on government subsidies nor US appropriated funds. For this purpose, it was considered necessary to develop commercial networks on a more multilateral basis, so that Japan could trade any partners who were prepared to buy Japanese industrial goods some items of which were yet to strengthen their price competitiveness and prepared to supply Japan with raw materials and foodstuffs to substitute US commodities. SCAP duly revealed a positive attitude in the subsequent sterling trade negotiations.

**SCAP'S INFLATED 1949/50 STERLING PROCUREMENT PROGRAM**

SCAP’s non-conversion of its sterling funds was a significant breakthrough in the 1949/50 sterling trade negotiations which had been suspended pending SCAP’s response to the

\(^{15}\) MITI, ‘Concerning Trade with Sterling Area’, 26 July 1949, SCAP, 6768(5), ESS(C)06099. Amakawa argues that the naming of the Ministry reflected the idea of the Prime Minister Shigeru Yoshida who advocated promotion of foreign trade. The original naming of the Ministry of Industry and Trade which had been proposed by the then Ministry of Commerce and Industry was amended through the initiative of Yoshida who also held the portfolio of the Minister for Foreign Affairs. Many officials from the Ministry of Foreign Affairs joined the MITI to take up the positions responsible for promotion of overseas trade. Akira Amakawa, ‘Tsusho Sangyosho no Secchi’ [The establishment of the MITI], Tsusho Sangyo Seisakushi Hensan Iinkai, 1990a, chapter 6, section 3.
pound's devaluation. Soon after the devaluation, SCAP revealed its preparedness to retain £10 million of sterling funds as inconvertible working capital which it would reserve against a short-term sterling shortage.\textsuperscript{16} Even when London later requested SCAP to amend the assurances of non-conversion of working capital into a more unequivocal wording than that initially offered by Cleveland — which the sterling delegates in Tokyo thought was as far as SCAP could go\textsuperscript{17} — the Controller accepted London's position.\textsuperscript{18} It seemed certain that SCAP firmly recognised the need to hold inconvertible sterling funds to ensure the smooth operation of trade between the two parties.

Furthermore, SCAP shifted to a more positive approach concerning Japan's purchases from the sterling area. On the same day as the devaluation of the pound sterling from $4.03 to $2.8, SCAP estimated the total purchases under the 1949/50 Sterling Trade Arrangement in the order of $140 million at a new rate, that is, £50 million. This figure was equivalent to about $200 million at the old rate which was higher than the previous offer by $40 million. This would give the sterling participants a reasonable amount of new purchasing power even after deducting the outstanding trade deficits. In fact, this time the Tokyo delegates felt confident about the prospect of the negotiations. Informing London of the new figure, they wrote, 'Our general impression was that SCAP may at last have accepted the need to reorientate the Japanese economy towards the Sterling Area though effects of this may be slow in appearing'.\textsuperscript{19} SCAP further surprised the sterling delegates when Pickelle made a proposal to express the figures in the proposed 1949/50 Trade Plan in sterling instead of dollars. The participants had already been considering the idea but were hesitant to raise the issue with SCAP lest they should be misunderstood as being prompted by their fear of an increased burden due to the outstanding deficit to be caused by the devaluation.\textsuperscript{20} In addition to the obvious benefit of technical convenience, this move reflected SCAP's increasing commitment to purchases from the sterling area. In fact, SCAP later agreed to expand the size of the overall balanced trade from £50 to £55 million.\textsuperscript{21} Thus by mid

\textsuperscript{16} Meeting of the Sterling Area Delegates, 23 September 1949, AA, A606, R40/1/90.
\textsuperscript{17} Meeting of the Sterling Area Delegates, 10 October 1949, \textit{ibid.}
\textsuperscript{18} Meeting of the Sterling Area Delegates, 17 October 1949, \textit{ibid}
\textsuperscript{19} Cable from UKLM to FO, no.DRIVE 1089, 23 September 1949, \textit{ibid.}
\textsuperscript{20} Meeting of the Sterling Area Delegates, 22 September 1949, \textit{ibid.}
\textsuperscript{21} Sterling Trade Arrangement Conference, 'Committee of the Whole: Report of Scheduled Meeting', 7 October 1949, \textit{ibid.}
October, agreements had been reached between the two parties on the main points of the 1949/50 Trade Arrangements and the Trade Plan.

SCAP's inflated purchasing program boosted Australia's trade prospects. By mid October, it had become clear that SCAP was prepared to purchase during 1949/50 a total of 150,000 bales of wool, an amount in excess of the previous estimates by 50,000 bales. According to confidential information Menzies received, the figure could reach 200,000 bales, while rumours in Tokyo predicted purchases as high as 250,000 bales. Although these were merely the estimates, the increased wool purchasing program reflects SCAP's now positive approach in calculating Japan's requirements from the sterling area. This is particularly noteworthy in view of the fact that SCAP had once taken the position that wool requirements should be estimated on the basis of reciprocal export prospects for Japanese woollen textiles which had been least demanded in the sterling markets.

Some SCAP officials even suspected that the total estimate of £55 million was beyond Japan's realistic industrial requirements. In his memorandum to Pickelle, W.J. Krossner, Chief of the Trade Arrangement Branch of the Foreign Trade and Commerce Division, pointed out that:

> The present estimate ... which has been allocated to specific commodities has been arrived at by stretching every imaginable point in favor of the Sterling Area Countries. In at least 19 items the entire procurement has been thrown into the £ Area. This was done deliberately to build up £ trade (emphasis in the original document).

Taking into account such factors as the less competitive prices of the sterling area commodities, the delay in implementing the purchasing programs and the emerging tendency of Japanese consumers to cut back the planned imports both on the overall level

---

22 Cable from AM to Canberra, no.390, 'Negotiations 16', 12 October 1949, ibid. It was expected that Australia would occupy 70 per cent of these total Japanese wool import programs.

23 Although these commodity figures were continually presented at the talks between SCAP officials and the sterling delegate, the 1949/50 Trade Plan did not include estimated purchases of any specific commodities, as undertaken in the 1948/49 Trade Plan. In order to avoid detailed and protracted discussions on the figures of each traded item, the 1949/50 Trade Plan simply set out the total SCAP purchases from the participants and the non-participants, the allocation of purchasing power among the participants and the non-participants, and the estimated invisible balances.

24 W.J. Krossner, Chief, Trade Arrangement Branch, Foreign Trade and Commerce Division to Pickelle, 'Fifty-five million £ estimate of Japanese purchases from the Sterling Trade Arrangement Participant Countries during FY 50', 28 September 1949, SCAP, 6734(18), ESS(A)05401.
and from the sterling area, Krossner warned that it would be difficult to attain the envisaged figure unless positive steps were taken to increase purchases from the sterling area. Pointing to an amount of inconvertible working capital as large as £10 million, a Japanese official of the Ministry of Foreign Affairs described it as ‘virtually dead stocks lest export industries should be damaged’. 25 These observations suggest that SCAP’s sudden rise in interest in promoting Japan’s sterling was the outcome of a deliberate attempt to divert Japan’s trade into sterling channels.

**DECREASING US AID AND THE SEARCH FOR A RICE SUPPLY FROM SOUTHEAST ASIA**

SCAP’s increasing interest in the expansion of Japan’s sterling trade from September 1949 onwards was based on the necessity to secure a supply of foodstuffs through normal commercial channels rather than US aid. A large part of US aid for Japan under the occupation consisted of funds appropriated for the Government Appropriation for Relief in Occupied Area (GARIOA), which were used to purchase foodstuffs, fertiliser, fuel and medical goods in order to prevent ‘disease and unrest’ in the occupied areas. In mid 1948, due to the active campaign by the Department of the Army, US Congress had accepted an increase in the GARIOA funds for Japan in the financial year 1948/49. Table 5.1 shows that throughout the occupation period Japan received the largest amount of US aid during 1948/49.

At the same time, SCAP was informed by Tracy Voorhees, Assistant Secretary of the Army, of the possibility of a drastic reduction in funds for 1949/50. Voorhees saw that the Congress had become more receptive to the appropriation of funds for the purpose of industrial recovery than relief aid. 26 The GARIOA aid for Japan in 1948/49 duly included funds for the Economic Rehabilitation in Occupied Area (EROA) to be used for the procurement of industrial raw materials such as raw cotton, machinery and other capital goods. The prospect of reduced aid and the increased allocation of the EROA funds meant that fewer funds would be available for food procurement in 1949/50. In order to cope


26 Radiogram from Tracy S. Voorhees, Assistant Secretary of the Army, to MacArthur, no.WAR-85578, 12 July 1948; Voorhees to MacArthur, 19 July 1948, SCAP, 6709(20), ESS(C)05429.
with the decreasing appropriation for foodstuffs, it was recommended that $57 million worth of foodstuffs should be purchased through SCAP’s own funds based on Japanese export earnings, while SCAP had a ‘year’s respite’ as it could count on an abundant supply of dollar aid during 1948/49. This is another reason for SCAP’s inactive attitude to the 1948/49 sterling trade negotiations, as discussed in the previous chapter.

Table 5.1  US Budget of the Appropriated Funds for Japan

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>GARIOA</th>
<th>EROA</th>
<th>Administration Expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945/46</td>
<td>93</td>
<td>-</td>
<td>-</td>
<td>93</td>
</tr>
<tr>
<td>1946/47</td>
<td>287</td>
<td>-</td>
<td>13</td>
<td>300</td>
</tr>
<tr>
<td>1947/48</td>
<td>351</td>
<td>97</td>
<td>20</td>
<td>371</td>
</tr>
<tr>
<td>1948/49</td>
<td>426</td>
<td>-</td>
<td>26</td>
<td>549</td>
</tr>
<tr>
<td>1949/50</td>
<td>237</td>
<td>188</td>
<td>19</td>
<td>444</td>
</tr>
<tr>
<td>1950/51</td>
<td>183</td>
<td>-a</td>
<td>15</td>
<td>198</td>
</tr>
<tr>
<td>Total</td>
<td>1,577</td>
<td>285</td>
<td>93</td>
<td>1,955</td>
</tr>
</tbody>
</table>

a  In 1950/51, the EROA funds was not specifically classified, but integrated with the GARIOA funds.

Source: Tsushosangyosho Tsushokyoku Tsusho Chosaka, 1956, p.98.

Although SCAP was prepared for the GARIOA cut, it found that Washington was determined to make a far more drastic reduction. SCAP revised its original GARIOA request for 1949/50 of the total $754 million including $155 million for EROA as of July 1948 into a total of $558 million including $165 million for EROA in May 1949. Washington pressed for a further $63 million cut and later an additional $75 million to reduce the total amount to $420 million. These reports stunned SCAP officials so much that MacArthur himself made a protest to Voorhees in Washington. MacArthur stressed that the proposed reduction of US appropriated funds would hamper the achievement of economic stabilisation programs under the Dodge Plan, would result in delaying Japan’s economic self-reliance and would put the ‘Japanese nation on a dole for an indefinite


121
period’. MacArthur revealed his pessimism about securing the required amount of foodstuffs through import trade, since he could expect only $50 million in export earnings against the $75 million requirements. Dearer prices in the sterling area would result in lesser quantities through purchases there than if the equivalent sum of funds were to be spent in the American food markets.  

Facing Washington’s determination, it became imperative for SCAP to search seriously for alternative sources of food supply on a commercial basis through Japan’s export earnings. As MacArthur admitted in his protest to Voorhees, the level of Japanese export earnings was dependent on the availability of the EROA funds for purchases of American raw cotton, which no other non-dollar suppliers could offer. Since the share of the EROA funds was raised in the total US aid, as shown in Table 5.1, SCAP was relieved from the necessity of concentrating cotton textile exports on the dollar area. This enabled Japan to direct its textile exports more into non-dollar markets than to the tough US market. Textile export earnings would give SCAP purchasing power for foodstuffs from non-dollar sources to make up for the decreasing relief aid. This explains SCAP’s request for an increased supply of foodstuffs from the sterling participants in an attempt to consume SCAP’s sterling surplus just before the pound’s devaluation, mentioned before. In early August 1949, Pickelle observed:

The only hope of an extension of trade with the Sterling Area is through increased purchases of foodstuffs and to some extent crude oil. GARIOA-ordination ... will permit SCAP to buy such items for trade goods and divert the dollars saved to other ‘appropriated funds’ projects for materials which are available from the USA only, such as raw cotton.

If SCAP was to procure foodstuffs from non-dollar areas, it might as well look to East and Southeast Asian countries for rice, the staple food for the Japanese people. In fact, the Foreign Trade and Commerce Division saw the possibility of a cutback in wheat imports, if substantial quantities of rice were available from Thailand and Burma. As discussed in Chapter 2, Voorhees was a strong advocate of the idea of linking Southeast

---


29 Pickelle to Marquat, ‘Summary of Sterling Area–Occupied Japan Trade Discussions 2-3 August’, 3 August 1949, SCAP, 6768(6), ESS(C)06104.


---

122
Asian foodstuffs and raw materials with the Japanese industrial capacity to supply capital goods for regional economic development, in order to make up for Japan's loss of its traditional trade partner, China, and decreasing US appropriated funds. Accordingly, in January 1950, Voorhees sent the Andrews and West Mission to Southeast Asian countries to explore food availabilities for Japan. The significance of Southeast Asian rice supply capacity had already been perceived by SCAP and Washington earlier. In 1948, Thailand asked the International Emergency Food Committee (IEFC), which had controlled world food allocation until 1949, to give approval to its rice supply to Japan in exchange for Japanese railway equipment.\textsuperscript{31} In support of the SCAP proposal of May 1949 to conclude trade arrangements centred on rice import with Thailand and Burma, the Department of the Army asserted:

> Since rice is the only major food available for exchange in this vital trading area and this is first opportunity to exploit such trade, Dept of Army considers it imperative these trade agreements be fully implemented. View here is that trade with SE Asia should be expanded to maximum even though short range approach might indicate acceptance of rice in exchange for Jap exports not desirable.\textsuperscript{32}

The British Commonwealth countries made several attempts to block SCAP's active procurement of rice in Southeast Asia. The United Kingdom and India raised a strong objection in the IEFC conference to reject the proposed barter supply of Thai rice in exchange for Japanese railway equipment in 1948.\textsuperscript{33} When SCAP began to enter into a series of rice import contracts with Thailand and Burma from late 1949 to early 1950, the sterling participants were so alarmed that London sent a special mission to dissuade SCAP from any further rice procurement in Southeast Asia:

> One pernicious feature of SCAP's dip into the S.E. Asian rice bowl, Mr. Lingeman [Economic Adviser to the UKLM] pointed out, was his [SCAP's] over-readiness to pay the monstrous price which Burma in particular had been standing out for, thus recently forcing the Governments of India and Ceylon to pay this price much against their will.\textsuperscript{34}

\textsuperscript{31} Smith, 4 August 1948, \textit{op.cit.}
\textsuperscript{32} Radiogram from DA to SCAP, no.W-89200, 27 May 1949, SCAP, 6442(26), ESS(B)03588.
\textsuperscript{33} Smith, 4 August 1948, \textit{op.cit.}.
\textsuperscript{34} Sterling Area Working Party, 'Minutes of the Fifty Fourth Meeting', 14 April 1950, AA, A606, R40/1/88.
SCAP dismissed the British allegation that its overpurchases in Southeast Asia were raising rice prices on the grounds that the occupation objectives made it imperative for SCAP to maximise food procurement through normal commercial channels. SCAP criticised the British estimates of rice availability in Asia as unduly low and argued that increased rice production through supply of Japanese machinery and equipment in exchange would work to stabilise rice prices.35

Although SCAP was undaunted by the British protest, the sterling participants successfully resisted SCAP’s ambition to increase rice purchases from Southeast Asia in the 1950/51 Sterling Trade Arrangement which imposed restraints on transferability of SCAP’s sterling funds, as will be explained in the next chapter. It restrained SCAP from diverting sterling funds earned from the participants into purchases of a large volume of foodstuffs such as Burmese rice from non-participants. Furthermore, despite the efforts to secure procurement through trade arrangements, rice producing countries in Southeast Asia had not increased their production levels yet. It was inevitable for the Japanese to look to wheat imports to cover their shortage of foodstuffs.36

THE PROBLEM OVER JAPAN’S ACCESSION TO THE INTERNATIONAL WHEAT AGREEMENT

Another move to secure food procurement was Japan’s accession to the International Wheat Agreement (IWA) which was established in July 1949. In August ESS’s Price Control and Rationing Division inquired about the intention of the Japanese government to join the Agreement. Washington ruled that the accession was a matter which should be decided by the Japanese government. Since IWA consumer members could enjoy a supply of wheat from producer members at cheaper prices than normal market prices, membership was considered advantageous from the viewpoint of dollar saving. The Japanese government duly asked SCAP to initiate arrangements for Japan’s accession in September.37

35 Radiogram from SCAP to DA, no.C-55800, 10 April 1950, SCAP, 6678(35), ESS(C)05064.
36 Gaimusho Seimukyoku Keizaika [Economic Affairs Division, Political Affairs Bureau, MFA], ‘Kokusai Komugi Kyotei Kanyu narabini Hosho Suryo ni kansuru ken [Accession to the International Wheat Agreement and the import guarantee quantities], 21 November 1949, DAO, B‘6.4.0.7.
37 For the negotiations over Japan’s accession to the IWA, see Hagiwara, 1972, pp.303-312.
The Japanese Ministry of Foreign Affairs observed that the US Department of the Army, especially Voorhees, was behind the proposal for IWA membership, with the aim of overcoming the decreasing GARIOA funds. In fact, Voorhees estimated that the IWA would bring benefits by securing $16 million by facilitating Japan’s food procurement from non-American sources. Here Australia’s presence had a significant meaning. Since a recipient of US aid had been obligated to pay full market prices for American foodstuffs purchased from the appropriated funds, Japan would not be able to enjoy IWA discounted prices as long as the GARIOA funds were used for purchases of American wheat. If Australia could make a sufficient volume of wheat available to Japan for payment in sterling at IWA prices, it would be of great benefit in terms of increased food supply with considerable dollar saving.

In October, both Japan and West Germany officially applied to enter the IWA. An official of the MFA represented the Japanese government, accompanied by the Chief of the Prices and Rationing Division of the ESS, because SCAP ruled that this was an issue over Japan’s official membership in the international organisation, and that the Japanese government should be duly involved in the negotiations. Japan guaranteed to import 1.2 million tons of wheat annually; West Germany requested 1.8 million tons. When the negotiations were resumed in January 1950, the United Kingdom objected to the applications by Japan and West Germany on the grounds that membership by these two big consumer nations in the IWA would reduce the UK’s voice as one of the principal consumers within the organisation, and the British government was concerned that Australia might use Japan’s accession as a ‘lever’ to raise the prices of sterling wheat for Britain.

Instead, the UK proposed a condition for Japanese accession: the quantities of Japanese purchases of Australian wheat under the IWA terms should not exceed the margin of increase in Australia’s total supplies for all IWA consumer countries as a result of Japan’s membership. In other words, Britain tried to preclude Japan from deliberately

---


39 Radiogram from Voorhees to MacArthur, no.W-96103, 3 November 1949, SCAP, 5979(2), ESS(C)00107.


41 Hagiwara, 1972, p.303. There had already been the precedents of membership in international organisations by the Japanese government under the occupation such as participation in the Universal Postal Union in September 1948.
increasing the volume of purchases of Australian wheat at IWA discounted prices beyond an internationally prescribed amount. While Australia was determined to vote against ‘anything but unconditional accession’ and the United States also supported Australia, the UK successfully vetoed Japan’s unconditional accession to the IWA.\(^{42}\)

The Japanese government was not prepared to participate in the IWA on these conditions. Such entry would not bring as many benefits to Japan as unconditional accession. According to estimates by the Price and Distribution Division, Japan could save only $1.1 million under conditional membership, which would allow Japan to purchase only 100,000 tons of Australian wheat. On the other hand, unconditional membership would give Japan 400,000 tons of Australian wheat at discounted prices to save a total of $3.2 million.\(^{43}\) SCAP officials understood well that IWA entry without the benefits of Australian wheat would not give much advantage to Japan. In discussions with Japanese officials to calculate the level of Japan’s guaranteed purchases under the IWA, Pickelle commented that the Japanese proposal for 1.2 million tons was too large because Britain was likely to reduce allocation of Australian wheat to Japan and then Japan would be obligated to increase the share of dollar purchases of American and Canadian wheat to consume all the amount of 1.2 million ton import guarantee.\(^{44}\)

In the event, Japan rejected conditional IWA membership. Since the large volume of guaranteed purchases proposed by Japan was such a threat to other IWA consumers, it was not until June 1951 that Japan was finally admitted to the IWA with drastically reduced quantities of guaranteed imports.\(^{45}\) The breakdown of the IWA option turned SCAP’s attention more closely to procurement of Australian wheat on a normal commercial basis through the Sterling Trade Arrangement. Pickelle was was optimistic about this prospect:

Further supplies of Australian wheat could be purchased by Japan outside of the IWA agreement. The prices would probably be somewhat higher [than IWA discounted prices], but still, from an overall consideration economic to Japan.

\(^{42}\) Floyd L. Whittington, Chief, Price and Distribution Division, ESS, to Marquat, ‘Present Status of Japan’s Application to the International Wheat Agreement’, 28 January 1950, SCAP, 5979(2), ESS(C)00108. In late 1949, the Price Control and Rationing Division was renamed the Price and Distribution Division.

\(^{43}\) Whittington to Marquat, ‘Current Status of Japan’s Application to the International Wheat Agreement’, 27 May 1950, SCAP, 6705(1), ESS(A)05018.

\(^{44}\) Gaimusho Seimukyoku Keizaika, ‘Kokusai Komugi Kyotei ni Tomonau Hosho Suryo ni kansuru ken’ [The guaranteed quantities in the International Wheat Agreement], 10 November 1949, DAO, B’6.4.0.7.

\(^{45}\) Hagiwara, 1972, p.311.
since it would save dollars and reflect additional purchasing power by the sterling area.\footnote{Pickelle to Russel Hale, Deputy Chief, Foreign Trade and Commerce Division, ‘Attached IWA Radio Dated 17 January 1950’, 18 January 1950, SCAP, 6705(1), ESS(A)05018.}

Washington echoed SCAP’s opposition to Japan’s conditional accession to the IWA, ‘[S]ince Australia is natural market [of wheat] for Japan it would seem that Japan has less to gain than Ger[many] by accession subject to above condition ... [I]t should be noted that this condition would not prevent Japanese procurement of Australian wheat outside IWA’.\footnote{Radiogram from the US Department of State to SCAP, no.161314-Z, 17 January 1950, SCAP, 5979(2), ESS(C)00108.}

The negotiations for Japan’s accession to the IWA reflected two important trends emerging from the latter half of 1949 to early 1950. Firstly, SCAP/Washington became firmly committed to increased food procurement for Japan from non-dollar sources among which Australia had the largest supply capacity. Secondly, there emerged a rift between Australia and the UK over the reestablishment of trade relations with Japan. While Australia, as the main supplier in the sterling area, welcomed the increasing commercial opportunities afforded by Japan’s return to the international trading activities, Britain was alarmed at its decreasing share of the intake of foodstuffs which was caused by Japan’s increasing procurement from the sterling area.

**TOWARDS ACTIVE FOOD PROCUREMENT THROUGH TRADE ARRANGEMENTS**

Without access to cheaper wheat from the IWA, it was only through normal commercial channels that SCAP could hope to secure increased food procurement from non-dollar sources. With a worldwide dollar shortage, expansion of trade could not be expected without dispelling each party’s fear of dollar liabilities by concluding bilateral trade arrangements to achieve balanced trade at the highest level. Table 5.2 shows the list of payments and trade arrangements concluded by SCAP. The list clearly indicates SCAP’s rising interest in trade arrangements from mid 1949 to early 1950 in line with the recommendations under the Logan plan, discussed in Chapter 2.
Table 5.2  Japan’s Trade and Payments Arrangements Concluded by SCAP, 1948–50

<table>
<thead>
<tr>
<th>Date of Effectuation</th>
<th>Country</th>
<th>Payments Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 11</td>
<td>French Union</td>
<td>$ O/A (TA from 9 Jun 49)</td>
</tr>
<tr>
<td>May 31</td>
<td>Sterling Area</td>
<td>£ cash</td>
</tr>
<tr>
<td>Nov 2</td>
<td>Sweden</td>
<td>$ cash ($ O/A from 1 Apr 50)</td>
</tr>
<tr>
<td>Dec 4</td>
<td>Thailand</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Dec 30</td>
<td>Netherlands and Indonesia</td>
<td>$ O/A</td>
</tr>
<tr>
<td>1949</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr 21</td>
<td>Mexico</td>
<td>$ cash</td>
</tr>
<tr>
<td>Apr 23</td>
<td>Korea</td>
<td>$ cash ($ O/A from 2 Jun 50)</td>
</tr>
<tr>
<td>May 6</td>
<td>Chile</td>
<td>$ cash</td>
</tr>
<tr>
<td>May 19</td>
<td>Uruguay</td>
<td>$ cash</td>
</tr>
<tr>
<td>Jun 2</td>
<td>Brazil</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Jun 8</td>
<td>Argentina</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Jun 15</td>
<td>Peru</td>
<td>$ cash</td>
</tr>
<tr>
<td>Jun 21</td>
<td>Colombia</td>
<td>$ cash</td>
</tr>
<tr>
<td>Jun 21</td>
<td>Finland</td>
<td>$ cash</td>
</tr>
<tr>
<td>Jun 27</td>
<td>Venezuela</td>
<td>$ cash</td>
</tr>
<tr>
<td>Jul 9</td>
<td>Belgium</td>
<td>$ cash</td>
</tr>
<tr>
<td></td>
<td>Monetary Area</td>
<td></td>
</tr>
<tr>
<td>Oct 4</td>
<td>West Germany</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Dec 18</td>
<td>Ryukyu</td>
<td>$ cash</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Pakistan</td>
<td>£ cash</td>
</tr>
<tr>
<td>1950</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar 16</td>
<td>Burma</td>
<td>£ cash (TA from 30 Jun 51)</td>
</tr>
<tr>
<td>May 18</td>
<td>Phillipines</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Jun 30</td>
<td>Indonesia</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Sep 6</td>
<td>Taiwan</td>
<td>$ O/A</td>
</tr>
<tr>
<td>Oct 9</td>
<td>Spain</td>
<td>$ O/A</td>
</tr>
</tbody>
</table>

O/A: Open Accounts  TA: Trade Arrangement


If SCAP was too cautious about its foreign exchange position when approving import contracts from the countries in trade arrangements, as had been the case in sterling trade during 1948/49, its counterparts would run short of funds to maintain their purchases of essential goods from Japan. This would have in turn culminated in a shortage of SCAP funds to finance the extensive purchasing programs, as the counterparts would tighten their import restrictions against Japanese goods. Hence, as early as May 1949, the Foreign
Trade and Commerce Division proposed allowing imports of less essential commodities, in order to promote trade with the countries in trade arrangements in preparation for the decreasing GARIOA funds:

In planning for [financial year] 1951, it must be recognised for the most part private trade will be used in both importing and exporting, therefore a [dollar] fund now should be set aside for category II [such as raw cotton] imports so that trade may be left open for the barter of commodities ... even though they may not be urgently required. This is especially necessary for such areas...as the Sterling Area, Korea, Burma and other Far Eastern Areas. The import program should be elastic enough to allow for the maximization of trade with all areas, especially those other than hard currency areas *(my emphasis)*.

The position of the Foreign Trade and Commerce Division was in line with the idea of an ‘import first method’ recommended by the Logan plan which was to be adopted by SCAP from October.

If SCAP was to permit imports of less essential commodities to expand the overall level of Japan’s trade, it would also be logical to allocate more raw materials to production for Japanese domestic consumption. In September, SCAP planned to increase imports of crude rubber from the sterling area and Indonesia during 1950/51 up to 45,000 tons with 40,000 tons for domestic use. This contrasts with SCAP’s claim for increased woollen textile exports in return for Japan’s imports of Australian wool, as revealed in the 1948/49 sterling trade negotiations. Domestic consumption was justified on the grounds that increased procurement would raise the level of trade with non-dollar areas and the increased utilisation of the Japanese industrial capacity would result in lower production costs and strengthened export competitiveness through economies of scale.

From this perspective, conversion of SCAP’s sterling surplus into dollars in the event of the pound’s devaluation in September 1949 was unacceptable to SCAP, since it would jeopardise Japanese export promotion to the sterling area countries. Furthermore, the devaluation reduced the prices of raw materials and foodstuffs from the sterling area from which Japan could purchase without dollar expenditure, making up for decreasing GARIOA funds. In fact, SCAP’s purchasing activity in the second half of 1949 was such that the

---


49 Radiogram from SCAP to DA, no.C-52659, 22 September 1949, *ibid.*.
availability of commodities from the sterling and other non-dollar sources rose remarkably in 1949, as shown in Table 5.3. Since in 1949/50 more than $400 million EROA funds could be utilised intensively for purchases of strategic industrial raw materials, SCAP could afford to procure more foodstuffs and raw materials for manufactured goods for domestic consumption from non-dollar sources. This provided the opportunity to raise Japanese living standards through improved daily nutrition and increased supply of clothing during 1950.50

Table 5.3 Japan’s Exports and Imports by Trading Area, 1946–49

<table>
<thead>
<tr>
<th>Exports from Japan</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>SEP’45–DEC’46</td>
<td>1947</td>
<td>1948</td>
</tr>
<tr>
<td>$ Area</td>
<td>82,203</td>
<td>48,816</td>
<td>86,983</td>
</tr>
<tr>
<td>£ Area</td>
<td>2,325</td>
<td>56,223</td>
<td>61,653</td>
</tr>
<tr>
<td>O/A Area&lt;sup&gt;a&lt;/sup&gt;</td>
<td>18,764</td>
<td>68,529</td>
<td>109,635</td>
</tr>
<tr>
<td>Total</td>
<td>103,292</td>
<td>173,568</td>
<td>285,271</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Imports to Japan</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>SEP’45–DEC’46</td>
<td>1947</td>
<td>1948</td>
</tr>
<tr>
<td>$ Area</td>
<td>302,747</td>
<td>490,618</td>
<td>562,782</td>
</tr>
<tr>
<td>£ Area</td>
<td>345</td>
<td>24,747</td>
<td>73,493</td>
</tr>
<tr>
<td>O/A Area</td>
<td>2,519</td>
<td>10,765</td>
<td>47,945</td>
</tr>
<tr>
<td>Total</td>
<td>305,611</td>
<td>526,130</td>
<td>684,220</td>
</tr>
</tbody>
</table>

<sup>a</sup> O/A Area includes the transactions with the countries covered by the open account payments arrangements.


Washington found it ‘absolutely essential’ to continue to cut the appropriated funds for Japan, so that it was imperative for SCAP to further divert Japanese trade away from the dollar area into non-dollar areas.51 Indeed in October 1949, Washington informed

---

50 ESS, ‘Narrative Statement to Accompany the FY 1951 Budget Request’, Undated (October–November 1948?), ibid.
51 Matthew J. Rose, Deputy Chief, Programs and Statistics Division, ‘Conference Report: 1950–51 Budget
130
SCAP of its policy to reduce the $420 million 1949/50 US aid to about $350 million in 1950/51, in the light of the expansion of procurement from non-dollar sources.\(^{52}\) At the end of 1949, Washington made its intention clear to further cut the $350 million to as little as $140 million, which Voorhees thought ‘disastrous’.\(^{53}\)

In order to cope with drastically reduced GARIOA funds, the Department of the Army and SCAP agreed that it might be necessary, first to enable 50 per cent of the shipment of the GARIOA relief goods to Japan to be made by non-American vessels, second to disregard the necessity to consume US surplus grains, and third:

> to utilize appropriated funds to a much larger extent for cotton which, for the most part, cannot be obtained elsewhere while leaving the Japanese free to buy in Australia, Canada or wherever they can find a market for the purchases of grains at a much lower price.\(^{54}\)

The proposed cut in the US appropriated funds was so drastic that SCAP was forced to give preference to non-dollar trade even at the cost of American commercial interests.

The rapid diversion of Japanese trade to non-dollar commercial channels was so successful that in early 1950 the Foreign Trade and Commerce Division could present an estimate of $130 million or more for food procurement from non-dollar suppliers before the end of 1949/50 against the 1948/49 achievement of $7.4 million.\(^{55}\) Washington also showed a ‘favorable response’ to SCAP’s ‘energetic’ food procurement, since it would help to lessen the burden of American taxpayers who had sponsored Japanese economic recovery.\(^{56}\) Apart from the need for Japan’s economic self-reliance, there seems to have been another aim behind this inflated estimate for non-dollar food procurement by the Division. Its Chief, Pickelle, who was in Singapore accompanying the Andrews/West Mission for Southeast Asian Food Trade in February 1950, instructed his colleagues in

---

\(^{52}\) K.D. Morrow, Chief, Programs and Statistics Division, to Marquat, ‘Review of US FY 50–51 import Program (Civilian Supply Projects)’, 19 October 1949, \textit{ibid.}\(^{53}\)

\(^{53}\) ‘Teleconference between SCAP and DA, ‘FY 51 Budget Estimates’, no.TT2895, 13 December 1949, \textit{ibid.}\(^{54}\)

\(^{54}\) Teleconference between SCAP and DA, ‘Fiscal Year 1950–51 Budget’, no.TT-2899, 15 December 1949, \textit{ibid.}\(^{55}\)

\(^{55}\) Pickelle to Marquat, ‘Food Procurement’, 11 January 1950, SCAP, 6678(35), ESS(C)05065.

\(^{56}\) Pickelle to Marquat, ‘Staff Service Message from (SCAP’s) Fine and Garvin (in Washington) Dated 10 March 1950’, 11 March 1950, SCAP, 6678(35), ESS(C)05064.
Tokyo to prepare a report on SCAP’s achievement of increased food procurement during 1949/50, in order to convince Andrews and West that SCAP had ‘exhausted every possibility to obtain food’. This was aimed at demonstrating SCAP’s past effort for food procurement, in order to convey the message to Washington that there was little room for additional non-dollar food procurement on a commercial basis and therefore SCAP could not bear any further cuts in the GARIOA funds.

Thus, the prospect of decreasing GARIOA funds brought accord between SCAP and Washington about the necessity to cultivate Japan’s normal commercial networks with non-dollar area countries, centred on active food procurement. Because of the Sterling Trade Arrangement, the sterling participants had a larger capacity to absorb Japanese industrial goods providing Japan more purchasing power for foodstuffs and raw materials than other non-dollar countries which had concluded bilateral trade arrangements with SCAP. There was every reason for SCAP to look to Australia for increased supplies of grain in implementing its new trade strategy for Japan.

THE PROBLEM OF SCAP’S STERLING SHORTAGE

SCAP’s new and active purchasing policy from the sterling area encouraged SCAP officials and the sterling delegates to reach an agreement on the basic points during the sterling trade negotiations of October 1949. The 1949/50 Sterling Trade Arrangement was finally concluded on 9 November. The delay in conclusion was caused by the discord between Australia and Britain over increased allocation of purchasing power for Australia which had been given only a limited share of purchases of essential Japanese goods among the participants due to the overbuying by India and the British colonies. It had an urgent need to procure steel from Japan. Despite the divergence in approach to Japanese trade, the United Kingdom appreciated Australia’s strategic role in the Sterling Trade Arrangement:

The underlying conception of the trade agreement with S.C.A.P. is that some sterling countries should sell more to Japan than they buy and allow the excess purchasing power to be used by other territories ... During the first trade agreement with S.C.A.P., Australia played a notable role in augmenting the total purchasing power available. We would hope that we could count on continuing

---

57 Pickelle to Marquat, 3 February 1950, SCAP, 6678(35), ESS(C)05065.
58 For the widening rift between Australia and the United Kingdom over the allocation of purchasing power for Japanese goods, see Rix, 1986, pp.101-102.
Australian help in this regard; In this way Australia contributes to saving of dollars by the Sterling Area... 59

In fact, SCAP’s purchases from the sterling area, centred on Australia, had increased so remarkably that the participants recognised that their previous trade deficit with Japan might be ameliorated. 60

Once SCAP tried to maximise procurement from the sterling area, it soon fell short of sterling funds to finance its purchasing program in late 1949. Japan’s procurement from the sterling area tended to be heavily concentrated on the December quarter of each year, when the major import commodities such as wool, grains and cotton became available. 61

Although SCAP held approximately £12 million sterling cash in mid November, this amount was far from adequate to finance heavy seasonal purchases. Furthermore, SCAP’s sterling funds were dwindling so rapidly that by January 1950 it had become extremely difficult for SCAP to purchase the planned volumes from the sterling area. The situation which had existed the year before was totally reversed. It was now SCAP, which had been repeatedly criticised for its sluggish buying activities, urging the sterling participants to become more active in purchasing from Japan. 62

Hence, SCAP’s seasonal shortage of sterling funds became the main focus of the Sterling Area Trade Review Conference held in Tokyo from 24 January to 15 February 1950. The sterling participants did not show any sympathy for the SCAP request to increase imports from Japan to parallel its heavy seasonal purchases. The sterling delegates argued that it would take a fairly long time to adjust each participant’s requirement to revise the whole purchasing programs. The participants pointed out that they had to remain

59 Cable from Crosec to Canberra, no.195, 29 November 1949, AA, A606, R40/1/90.
60 It was reported that SCAP entered £12 million worth of contracts of purchases from the participants between October and early November 1949, making full use of its £16 million sterling surplus as in early September. Since SCAP was likely to further increase procurement during November and December, the participants were virtually out of the danger of incurring dollar liability in Japanese trade. Sterling Area Working Party, ‘Thirty Fourth Meeting’, 3 November 1949, AA, A606, R40/1/88.
61 SCAP’s purchases from the sterling participants in the latter half of 1949 was calculated as follows.

<table>
<thead>
<tr>
<th>Month</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>TOTAL (unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>10</td>
<td>1.5</td>
<td>21</td>
<td>38.5 (£ million)</td>
</tr>
</tbody>
</table>

62 Pickelle to Gascoigne, ‘Current Status of Trade Between the Sterling Area and Japan’, 3 January 1950, ibid.
cautious in relaxing their tight import licensing for Japanese goods in the light of past experience. Rejecting SCAP's request, the delegates suggested that SCAP should use the existing facility of ordinary short-term commercial credits of 90 to 120 days to finance its heavy seasonal purchasing. While admitting the imminent need to extend sterling credits by the British banks as requested by the SCAP officials, the participants ruled that this was not a matter to be discussed at the Trade Review Conference but to be negotiated between SCAP and each British bank.63

SCAP officials, however, had faced serious difficulties in utilising this financial facility. No British banks were prepared to extend sterling credits on a normal 50 per cent deposit basis to the newly established Foreign Exchange Control Board of the Japanese government.64 Furthermore, R.H. Marlow, Acting Controller and Deputy Chief of the Banking and Foreign Exchange Division, ruled out short-term credits because he found it 'unsound' to enter into credit commitments counting on unknown levels of future sterling balance. The SCAP officials in charge of foreign funds still adopted the policy of authorising expenditure of foreign exchanges based on the amount of cash in hand rather than prospective export earnings.65

Without extension of sterling credit, the controllers of SCAP's foreign exchanges did not hesitate to curtail purchases from the sterling area. With no solution from the Review Conference, H.H. Thomas, Financial Adviser to the UKLM proposed, as a 'last resort', a new alternative measure — the so-called dollar-sterling 'swap' — under which the Bank of England would give SCAP sterling credit against dollar deposits.66 Since Japan's dollar position was found to be quite healthy at that stage, Thomas could convince SCAP's

---

64 Telegram from UKLM to London, 31 January 1950, AA, A606, R40/1/88. Although the Foreign Exchange Control Board which took over SCAP's power to control Japan's foreign exchanges with the complete introduction of private import trade on 1 January 1950, SCAP virtually retained its control over its standing foreign exchange account until October 1951. Since the Overall Payments Agreement stipulated that payments should be made into SCAP's accounts, the financing of sterling trade remained under the influence of SCAP's policy, until the Overall Agreement was replaced by the new Sterling Payments Agreement concluded by the Japanese government on 31 August 1951. SCAP gave the Japanese government full discretion over the negotiations for a new Payments Agreement, as mentioned in Chapter 7. Inuta, 1976, pp.79-81.
65 Telegram from UKLM to London, 31 January 1950, op.cit. The Fund Control Division was reorganised and renamed the Banking and Foreign Exchange Division in mid 1949.
66 Thomas to Cleveland, Chief, Banking and Foreign Exchange Division, 22 February 1950, AA, A606, R40/1/88.
officials in charge of its funds, especially Paul Cleveland, Chief of the Banking and Foreign Exchange Division and Controller of SCAP’s foreign exchanges, to accept a dollar swap of £5 million after ‘considerable persuasion’ at the end of February.67 Despite this, the proposal for a dollar ‘swap’ was turned down by W.F. Marquat, Chief of the ESS. According to the information passed to Thomas, Marquat refused to consider the option because he was ‘irrevocably opposed’ to any ‘sale’ of dollars ‘on political grounds’.68 There was no way for Cleveland to move Marquat. To be sure, Japan’s dollar reserve had shown a tendency to increase even before the outbreak of the Korean War.69 However, the financing of Japan’s essential dollar imports such as raw cotton was still dependent on US aid to a considerable extent, and Washington had pressed SCAP for a drastic cut in the GARIOA funds in 1950/51. In view of this, SCAP could not show any sign which might be interpreted by Washington as Japan using its dollars, financed from American taxpayers’ money, in an extravagant way.

With no extra supply of sterling credit to maintain its purchasing program, SCAP reached the conclusion that there was no alternative but to stop buying from the sterling area. In early March 1950, the Foreign Exchange Control Board instructed MITI to suspend the licensing of imports from the sterling area.70 As a result, Japan’s sterling position improved rapidly to record a surplus by May.71 Table 5.4 shows the effects of SCAP’s tight import controls on sterling trade from March onwards. Furthermore, SCAP made a move which led the sterling delegates to doubt whether it had completely committed itself to the expansion of Japan’s sterling trade. In early May, it was reported that SCAP proposed to purchase iron ore from French Indo-China and hides and skins from the United States, although these commodities were available from the sterling area.72

67 Cable from AM to Canberra, no.67, 2 March 1950 (received date), AA, CP553/1, 194/B/10/91.
69 The Japanese dollar reserve as of December 1949 was $156 million. The amount was $250 million in June 1950. It jumped up to $465 million at the end of the year due to the effect of the Korean War Boom. In contrast with active Japanese exports to the dollar area from late 1949 to early 1950, the sales to the sterling area dwindled due to the pound’s devaluation and, more significantly, the tight import licensing against Japanese goods (Tsushosangyousho Tsushokyoiku Tsusho Chosaka, 1956, pp.115-119).
70 Cable from AM to Canberra, no.67, 2 March 1950, op.cit.
71 Hunt to Marquat, 11 May 1950, DAO, B’0.0.2.0.
Table 5.4 Japan’s Monthly Exports and Imports with the Sterling Area in 1950
(Unit: $ '000)

<table>
<thead>
<tr>
<th>Month</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>11,136</td>
<td>9,498</td>
<td>12,467</td>
<td>13,386</td>
<td>13,967</td>
<td>21,294</td>
</tr>
<tr>
<td>Imports</td>
<td>9,006</td>
<td>20,930</td>
<td>17,922</td>
<td>13,555</td>
<td>14,719</td>
<td>15,028</td>
</tr>
<tr>
<td>July</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>21,578</td>
<td>27,226</td>
<td>19,502</td>
<td>19,766</td>
<td>22,348</td>
<td>33,842</td>
</tr>
<tr>
<td>September</td>
<td>8,831</td>
<td>18,807</td>
<td>15,339</td>
<td>19,090</td>
<td>20,986</td>
<td>26,280</td>
</tr>
<tr>
<td>October</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Australia, as the main supplier to Japan among the sterling participants, was hard hit by SCAP’s tight sterling control. The rising prices in the sterling wool markets had reduced the quantities of scheduled wool imports during the January–March quarter. Since March, however, shipments of Australian wool and wheat to Japan had been suspended. The SCAP officials in charge of the supervision of the Japanese textile industries saw the danger of a shutdown of the woollen mills in autumn due to a lack of raw materials.73 Against the urgent plea for procurement from both the Foreign Trade and Commerce Division and the Industry Division of the ESS, the Controller of SCAP’s funds flatly rejected spending sterling on additional wool procurement:

In view of the few days remaining in the January–March quarter it is highly improbable that a re-examination of Japan’s sterling position could be effected ... prior to the beginning of the next quarter. That such a re-examination would indicate availability of any additional sterling at this time is even less probable as day-by-day sterling receipts have as yet shown no significant signs of improving.74

This illustrates Cleveland’s determination to defend SCAP’s cash position even running the risk of a disruption of industrial activities.

73 W.N. Robins, Chief, Trade Coordination Branch, to Carl C. Campbell, Special Assistant, Foreign Trade and Commerce Division, ‘Raw Wool Procurement Program’, SCAP, 6188(11), ESS(A)01306.
74 Cleveland to Foreign Trade and Commerce Division, 22 March 1950, SCAP, ibid.
SCAP’s tight control made H.C. Menzies, Australian Commercial Counsellor in Tokyo, pessimistic about the possibility of Australia exporting to Japan before May the whole amount of wool that had been estimated in the 1949/50 sterling trade negotiations. He reported to Canberra that SCAP’s intention at that moment was to increase the procurement of South American wool even though the Japanese wool manufacturing industry was ‘very perturbed’ at the cessation of the raw wool supply from Australia. The preference of the Japanese wool mills for Australian types and qualities was set aside by the occupation authority in the face of the shortage of sterling funds.

The contraction of Japanese sterling trade in early 1950 cannot be attributed solely to SCAP. As previously mentioned, while SCAP did not regard the sterling area countries as attractive trade partners in 1948/49, it had begun to reveal its intention to expand sterling procurement from mid 1949. Its seasonal shortage of sterling funds, however, prevented SCAP from expanding sterling trade. The sterling shortage was caused not only by the remarkable increase in imports from sterling suppliers but also by the inactive purchasing from Japan by the sterling participants. Since the participants suspended licensing of imports from Japan in July 1949 when they accumulated a large amount of adverse balance in Japanese trade, the United Kingdom had been quite slow in resuming licensing. Even after import licensing was resumed at the end of 1949, it was administered with great caution. London did not issue import licences for Japanese goods even when SCAP’s sterling funds were rapidly running out and SCAP’s introduction of tight import controls on sterling commodities looked imminent. The United Kingdom’s response to SCAP’s plea for urgent extension of sterling credits was cool. London’s rejection of a credit extension forced SCAP to impose a tight control on its sterling account, and this seriously affected export sales to Japan by the other sterling area countries such as Australia. Why did London, in fact, restrict trade with Japan at this stage even at the risk of disrupting the commercial interests of the other sterling participants?

Against SCAP’s plea for increased purchases by the participants, the British government justified its cautious issuance of import licensing for Japanese goods as deriving from the experience of the previous year when its active purchasing from Japan led to a large adverse balance and the resultant danger of SCAP’s conversion of sterling surplus into

75 Menzies to Canberra, 31 March 1950, AA, A606, R40/1/95.
dollars. This argument was not plausible because London had confidentially admitted to the other participants that the danger of dollar liability had been dispelled as SCAP was unlikely to invoke the dollar convertibility clause of the Overall Payments Agreement. This suggests that the British government had other reasons for imposing tight controls on trade with Japan.

London’s negative approach to the expansion of Japan’s sterling trade is best illustrated by a cable sent on 26 May 1950 to all the governments participating in the Sterling Trade Arrangement. In this cable, despatched on the eve of the 1950/51 sterling trade negotiations in Tokyo, the British government made it clear to the members that the sterling area should adopt a new approach to Japanese trade in response to the emergence of new situations. London’s cable began thus:

Most serious problem results from Japanese revival. Internal recovery of Japan and diminished financial assistance from the United States must drive Japan to seek to increase trade with the Sterling area.

It considered that two serious problems for the sterling area would arise from expansion of trade with Japan. Firstly, if Japan was allowed to obtain an increased volume of foodstuffs, especially rice, and essential raw materials by payment in sterling, the other sterling area countries might be forced to purchase these commodities from other sources for dollars. Secondly, expansion of balanced trade between Japan and the sterling participants would put the latter under pressure to import non-essential goods from Japan. The United Kingdom could not incur the risk of losing a portion of its limited dollar reserves and exposing its manufacturing industries to tough competition from the resurgent Japanese export drive, while giving Japan the benefit of procuring essential supplies. Hence, London instructed that the sterling delegates should avoid authorising SCAP to inflate its purchasing power in the coming negotiations in Tokyo.

If London’s instruction was to be observed strictly, it would have the effect of hampering expansion of the overall level of trade between Japan and the sterling

---

76 Cable from Australian High Commissioner’s Office in London to Canberra, no.1370, 28 March 1950, ibid.
77 Cable from Crosec to Canberra, no.50, 3 March 1950, AA, CP553/1, 194/B/10/91.
78 Cable from Crosec to Canberra, 26 May 1950, no.100, AA, A606, R40/1/95.
79 Ibid.
participants. The total export commodities available to Japan from the sterling area in 1950/51 were likely to be lower than their total import requirements from Japan by approximately £22 million.\textsuperscript{80} If SCAP were not to be allowed, as London insisted, to fill this gap by procurement of some commodities from the sterling area countries not participating in the Trade Arrangements, the participants would have to reduce their purchases from Japan to balance the overall trade. This would provoke enormous dissatisfaction among the other participants such as India and Ceylon which still had high levels of demand for Japanese manufactured goods. Furthermore, curtailment of purchases from Japan might cause a recurrence of SCAP’s seasonal sterling shortage, which would culminate in cessation of sales to Japan. This would have jeopardised Australia’s commercial interests in Japanese trade. Canberra’s reply to the cable from London revealed its concern about this danger. Although recognising the problems of the increased Japanese competition over foodstuff procurement within the sterling area and the pressure for imports of less essential Japanese goods, the Australian government insisted on the importance of Australia’s ‘continued access to available supplies’ and ‘maintenance and development’ of its sales to Japan. It concluded that Australia’s fundamental interests lay in ‘promoting high level of two-way trade’ between Australia and Japan.\textsuperscript{81} Thus, SCAP’s attempt to divert Japan’s trade relations from the dollar into the sterling area faced the British resistance and resulted in the divergence of commercial interests between Britain and the other sterling area countries including Australia.

The strong pressure from Washington for drastic cuts in the GARIOA funds made it imperative for SCAP to divert Japan’s commodity procurement from dollar to non-dollar suppliers. Due to the lower availability of strategic raw materials such as raw cotton from non-dollar sources, SCAP instead came to look to the sterling area for increased procurement of foodstuffs, as demonstrated in its active purchases in late 1949. Because of the need to purchase a large volume of foodstuffs in sterling, it was in SCAP’s interest to dispel the fear of the sterling participants about dollar liabilities by not converting its sterling surplus when the pound was devalued and to seek expansion of two-way trade with the sterling participants. Under SCAP’s new trade strategy, Australia was considered an

\textsuperscript{80} Ibid.

\textsuperscript{81} Cable from Canberra to Crosec, no.126, 1 June 1950, AA, A606, R40/1/95.
alternative grain supplier for Japan, as illustrated in SCAP’s push for Japan’s accession to the IWA and in the review of the 1949/50 Trade Plan which allocated more sterling funds for purchases of wheat than raw wool from Australia.

Decreasing US appropriated funds prompted Japan’s return to normal commercial networks on a more multilateral basis in an attempt to maximise food procurement from non-dollar sources. The United Kingdom did not welcome this move since it wished to reserve sterling foodstuffs for internal allocation within the sterling area. Accordingly, Britain blocked SCAP’s active rice procurement from Southeast Asia and Japan’s accession to the IWA. London also adopted a negative approach to opening sterling markets for non-essential Japanese goods for domestic industrial protection. This caused a delay in the relaxation of import restrictions on Japanese goods. As a result, SCAP’s heavy seasonal procurement from the sterling area culminated in a serious shortage of sterling funds in early 1950. Due to the policy of issuing import approvals based on a cash position, the SCAP controllers of sterling funds tightened the import licensing for sterling commodities. Although SCAP appreciated Australia’s importance as supplier in developing Japan’s economic self-reliance, Britain’s conservative import licensing policy forced SCAP to restrain its sterling purchasing programs which affected Australia’s commercial interests in Japanese trade.

Thus, in 1949–50, SCAP and Britain completely changed sides with regard to Japan’s sterling trade. It was London that tried to restrain its expansion. On the other hand, SCAP came to take a remarkably positive approach. In the subsequent 1950/51 sterling trade negotiations, SCAP further revealed its policy to put Japan’s sterling trade on a more multilateral basis. The United Kingdom also resisted this strongly.
SCAP's Quest for More Multilateral Trade with the Sterling Area: The 1950/51 Sterling Trade Negotiations

While SCAP wanted to divert Japanese trade from dollar to sterling and other non-dollar sources to make up for decreasing US appropriated funds in 1949/50, the United Kingdom tried to restrain Japan's entry into the international trade scene. The issue came to a head in the 1950/51 sterling trade negotiations, held in Tokyo in June 1950. The conclusion of the 1950/51 Sterling Trade Arrangement was delayed until 22 November 1950, with conflict arising between SCAP officials and the sterling delegates over SCAP's ambitious proposal. Firstly, SCAP wanted to enhance substantially the volume of trade outlined in the Trade Plan. In order to balance its enhanced procurement program, SCAP requested increased exports of non-essential Japanese goods to the sterling participants. Secondly, SCAP proposed to conclude a new, formal trade agreement stipulating the lowering of trade barriers between the two parties and the exchange of most-favoured-nation treatment on a non-discriminatory basis. Such an agreement would give Japan the benefits similar to those which could be gained from accession to the GATT. Thirdly, SCAP requested the British to authorise use of sterling funds accruing from exports to sterling participants for purchases from sterling area countries not participating in the Trade Arrangement. The objective was to conduct Japan's sterling trade on a more multilateral basis by introducing flexibility of transfer within the whole sterling area.

This chapter traces the negotiation process of the 1950/51 Sterling Trade Arrangement in order to clarify SCAP's intention to put Japan's sterling trade on a freer, more multilateral basis, through more flexible operation of the Sterling Trade Arrangement. Such an approach was in line with the strategy to achieve Japan's economic self-reliance under the Dodge Line through trade promotion in more multilateral directions. Although resistance by the sterling participants prevented full achievement of SCAP's objectives, the 1950/51 sterling trade negotiations showed SCAP's full commitment to expansion of
Japan’s sterling trade, especially in the procurement of foodstuffs and raw materials, in order to divert sources of supply from the dollar to the non-dollar area, in preparation for the decrease in US appropriated funds.

THE TRADE EXPANSION PLAN AND PROMOTION OF NON-ESSENTIAL JAPANESE EXPORTS

From the outset of the 1950/51 sterling trade negotiations, SCAP did not conceal its ambition to increase substantially procurement from the sterling participants. According to SCAP’s draft Trade Plan for 1950/51, which was submitted to the first meeting of 7 June, total annual Japanese purchases from the sterling participants were calculated at about £96 million. This figure far exceeded the £55 million allocated in the 1949/50 Trade Plan. The estimates indicated that SCAP was looking to Australia as the chief supplier of raw materials and foodstuffs. Total imports from Australia were estimated at about £41 million. Its share in the total purchases of the participants was to be more than 40 per cent. There was a notable shift in emphasis in that more money was to be spent on the procurement of foodstuffs than wool, which had been Australia’s main export commodity in previous years. Of total estimated imports from Australia of £41 million, £25 million was allocated to purchases of grain, including wheat at £21 million and barley at £4 million. SCAP’s total wool requirement from the sterling participants amounted to only £23 million, of which £16 million was allocated to Australian wool. This proposal reflected SCAP’s policy of looking to non-dollar sources for the supply of foodstuffs, in preparation for the considerable curtailment in US appropriated funds, as discussed in Chapter 5.

Initially, the sterling participants raised doubts about the practicability of SCAP’s purchasing program. Based on the ‘reasonable’ availability of commodities, they calculated the appropriate level of sales to Japan for 1950/51 at around £65–£70 million at most. Against this sales figure, essential requirements from Japan were estimated at £77 million.

---


4 Cable from AM to Canberra, no.218, 15 June 1950, AA, A606, R40/1/95.
If overall trade was to be balanced at the level of the SCAP figure of £96 million, the participants would have to expand their purchases of non-essential Japanese goods to match SCAP's vast purchases. In the light of London's conservative approach to imports of this nature, the sterling delegates felt that it was most appropriate to keep the level of trade around £77 million.

By mid June, however, delegates had reached an agreement that it might not be excessive to balance overall trade between the participants and Japan at around £85–90 million. This figure was considered appropriate because it would open the way for the participants to promote their export trade to Japan. The amendment derived from pressure exerted by the chief exporter to Japan, Australia. The Australian delegate expressed concern about the restrictive effects on Australian sales if total essential requirements were kept below £77 million, thus limiting SCAP's purchasing power. The fact that the United Kingdom accepted the Australian claim indicates that there was less objection among the other participants to expansion of export trade with Japan. By mid July, there appeared to be every chance of settling the size of the Trade Plan at a considerably expanded level around £91 million.

SCAP then raised a new problem. In its attempt to boost the size of the Trade Plan, SCAP did not hide its intention to increase exports of non-essential Japanese goods. In mid July, SCAP officials approached the sterling delegates to purchase £5.8 million of non-essential goods from Japan. SCAP's argument was based on the principle of reciprocity. On the grounds that the Japanese purchase program included £5.8 million of non-essential imports to raise the level of balanced trade, SCAP insisted that participants should also purchase the same amount of non-essential goods from Japan.

The sterling participants were unwilling to accept SCAP's request. There was a firm consensus among delegates that imports from Japan should be centred on essential goods in short supply in the sterling area. There was no need to make a commitment to purchase

---

5 Ibid.
6 Sterling Area Working Party, 'Minutes of the Sixty Fourth Meeting', 12 July 1950, AA, CP553/1, 194/B/10/50/5.
7 Cable from AM to Canberra, no.218, op.cit.
8 Sterling Area Working Party, 'Minutes of the Sixty Sixth Meeting', 14 July 1950, AA, CP553/1, 194/B/10/50/5.
9 Sterling Area Working Party, 'Minutes of the Sixty Fifth Meeting', 13 July 1950, ibid.
non-essential goods from Japan in order to match SCAP’s active purchasing program because countries such as Australia, India and Ceylon still had considerable demand for purchases of Japanese essential goods.\(^{10}\)

Receiving a flat refusal from the sterling participants, SCAP withdrew the request and did not raise the issue again. This suggests that the export of non-essential Japanese goods to the sterling area did not have a high priority in SCAP’s negotiation strategy. When, for example, SCAP asked Australia to consider increasing its purchases of Japanese machinery, exports of which had been hit by the pound’s devaluation in the previous year, the Australian delegate, H.C. Menzies, suspected that the proposal was less a SCAP initiative than the result of strong pressure exerted by the Japanese government and industry.\(^{11}\)

In 1950 a certain section of SCAP proposed to integrate Japanese industrial capacity with the economic development of Southeast Asia, as mentioned in Chapter 2. Unlike Japanese business and government circles, which held excessive expectations of a stable source of extra dollar income through the US strategic aid program, SCAP at this stage focused on the promotion of Japanese trade with the region on an unsubsidised commercial basis. The Sterling Trade Arrangement was an ideal instrument for implementing this strategy. The more Japan could export non-essential items to the region, the more purchasing power for raw materials and foodstuffs Japan could expect to obtain in sterling. Extensive Japanese procurement would in turn give the sterling area countries in Asia purchasing power for Japanese industrial goods, especially in the less competitive heavy and chemical industry sectors. Thus SCAP’s emphasis on non-essential Japanese exports should be interpreted as a clear sign of its intention to link the expansion of sterling trade with the restoration of Japanese industrial activity.

**PROPOSAL FOR THE APPLICATION OF GATT PRINCIPLES**

Another ambitious proposal which SCAP raised in the negotiations was application of GATT trade principles between Japan and the sterling participants. When the two sides reached agreement on the overall level of the 1950/51 Trade Plan in mid July, the focus of the negotiations turned to drafting the 1950/51 Sterling Trade Arrangement. The sterling

\(^{10}\) Menzies to Canberra, 13 July 1950, AA, A606, R40/1/95.

\(^{11}\) Ibid.
participants did not wish to make drastic amendments to the provisions in the previous Arrangement. On the other hand, SCAP proposed the negotiation of a formal trade agreement which included provision not only for balanced trade on a sterling basis but also the removal of trade barriers between Japan and the sterling participants. SCAP's draft Sterling Trade Agreement, dated 23 July 1950, outlined this proposal in several controversial clauses:

1. Both parties to recognise that 'quota and exchange restrictions and other restrictive practices which have the effect of acting as barriers to international trade must be reduced to a minimum' (Preamble).

2. Both parties to 'do everything feasible to relax existing trade, currency, and other controls which may have the effect of restricting trade' (Article V-C).

3. 'The Governments of the Sterling Area Participants will accord to the merchandise trade of Japan and Japanese flag ships treatment similar to that accorded by the United States of America to such trade and shipping' (Article VII).

4. Parties to the Agreement 'will consult ... with respect to the possibility of developing trade and settling trade balances on a multilateral basis' (Article X).

These clauses were totally unacceptable to the sterling participants. They were alarmed at SCAP's move because it seemed to be an attempt to introduce GATT provisions by back-door methods. The proposed preamble went beyond the GATT in that it did not contain GATT-style safeguard clauses exempting nations from reducing trade restrictions. With regard to the relaxation of trade, currency and other controls, the sterling participants were not prepared to 'relax for Japan what they could not relax for the rest of the world' at that stage. They had refused to commit themselves to importing non-essential Japanese goods and now were not prepared to accept drastic liberalisation of trade with Japan. A formal trade agreement with Japan would raise grave concern about the influx of cheap Japanese manufactures and might cause serious domestic political problems.

Faced with an unequivocal refusal by the sterling delegates, SCAP voluntarily withdrew its draft Trade Agreement. The SCAP officials said that it was not 'their intention

12 SCAP, 'Trade Agreement Between Certain Countries in the Sterling Area and Occupied Japan', counter draft, 23 July 1950, AA, A606, R40/1/98.
13 Meeting of the Sterling Area Delegates, 28 July 1950, ibid.
to introduce controversial matters’ into the negotiations. They also accepted the British argument that there were some doubts as to the legal right of SCAP to sign such a formal trade agreement. Although SCAP was an entity created by the Allied Powers, it was now proposing to sign a formal agreement on behalf of Japan with the sterling participants, some of whom were members of the Allied Powers, SCAP’s founders. Subsequently SCAP agreed to negotiate a draft which took the form of the existing trade arrangement.

SCAP inserted a proposal on Japanese shipping treatment in sterling area ports into the draft formal trade agreement, in response to the British attempt to obtain similar treatment for its vessels in Japanese ports. At the beginning of the negotiations, the sterling delegates expressed their concern about Japan’s discriminatory tendency in shipping, alleging that the Japanese used only Japanese vessels in transportation to Japanese ports when they purchased Burmese and Thai rice. They duly tried to insert into the Arrangement a clause stipulating ‘no discriminatory action and no unnecessary restrictions’ in Japan against any shipping. This clause would impose a unilateral commitment on Japan to grant non-discriminatory treatment to the vessels of the sterling participants in Japanese ports. It would expose the war-devastated Japanese shipping industry to competition with British vessels in Japan without giving it reciprocal access to British ports.

The proposal was unacceptable to SCAP because Japanese shipping was under reconstruction as part of SCAP’s policy at the expense of American taxpayers, and so had to become operational on a commercial basis as soon as possible. SCAP therefore proposed reciprocal benefits for the Japanese shipping industry in Article VII of its draft formal Trade Agreement. Under this Article, the participants would have to permit entry of Japanese vessels to their ports as long as the United States gave such treatment to Japan. This was totally unacceptable to some sterling area countries, such as Australia, for political and security reasons. The sterling participants made it plain that they were not prepared to include any provision for free access of Japanese ships to their ports in the Trade Arrangement. Again realising the difficulty of reaching such an agreement, SCAP dropped the clause from the draft Trade Arrangement.

15 Ibid.
17 ‘Third Meeting of the Committee of the Whole’, 31 July 1950, op.cit.
This did not mean that SCAP gained nothing from raising the shipping issue. SCAP's shipping clause demonstrated its determination to insist on reciprocal access for Japanese ships to ports of the sterling countries whenever a provision on non-discrimination in shipping was to be included in the Sterling Trade Arrangement. SCAP's shipping clause was too politically sensitive for the sterling participants to accept, in view of the strong wartime antipathy to the Japanese among some sterling area countries, and the participants did not pursue Japan's unilateral commitment to non-discriminatory treatment for sterling vessels at Japanese ports. After SCAP dropped the shipping clause, the sterling participants agreed to eliminate the shipping problem from the negotiation agenda, but with 'a considerable measure of disappointment'.

In August 1950, it became clear that the SCAP attempt to promote the export of non-essential Japanese goods and to establish a formal institutional framework for Japan's sterling trade had not been successful. The fact that SCAP readily withdrew its proposals when faced with determined objection from its counterparts suggests that it did not regard them as issues of utmost importance in the negotiations for the 1950/51 Sterling Trade Arrangement. Why did SCAP present these proposals? In particular, what led SCAP to seek to apply GATT principles to sterling trade?

**SCAP AND MOST-FAVOURED-NATION TREATMENT FOR JAPAN**

The question of the desirability of applying GATT principles, especially most-favoured-nation treatment, for Japan's overseas trade had been contemplated by SCAP since the early occupation period. Examining the draft Charter for an International Trade Organization just before the United Nations Conference on Trade and Employment in Havana in November 1947, SCAP/ESS's Foreign Trade Division argued that the granting of most-favoured-nation treatment to Japanese exports including tariffs was 'of major importance in view of the necessity of maximizing Japanese exports'. Although US delegates tried to raise the issue of most-favoured-nation treatment for Japan at sessions of the GATT contracting parties and other meetings during 1948, there was strong opposition to Japan's

---

18 Sterling Area Trade Conference, 'Statement by the Sterling Area Delegation at the Plenary Meeting Held on 17th August, 1950', DAO, B'0.0.2.0.
19 Foreign Trade Division, 'Memorandum for Record', 14 November 1947, SCAP, 6704(42), ESS(A)05015.
readmission into the international trade organisation. The memory of prewar unfair trading practices, the export drives exercised by the Japanese and wartime anti-Japanese animosity drove the United Kingdom and the British Commonwealth dominions into a flat refusal of the US proposal, on the grounds that Japan's establishment of a single exchange rate was 'mandatory' before any negotiation took place.\textsuperscript{20}

In 1949, the atmosphere within SCAP was conducive to Japan's obtaining most-favoured-nation treatment. In view of the decreasing GARIOA funds, as the US Department of the Army observed, most-favoured-nation treatment for Japan seemed necessary 'in order to lighten the burden of appropriations to support the deficit caused in the Japanese economy by those countries which continued to discriminate in their trade with Occupied Japan'.\textsuperscript{21} The Chief of the Foreign Trade and Commerce Division, Pickelle, also advocated the introduction of most-favoured-nation treatment for Japan to forestall discriminatory action against Japanese exports induced by overseas pressure groups which were alarmed at the recovery of Japanese trading activities.\textsuperscript{22} As discussed in the previous chapter, decreasing US aid made it imperative for SCAP to develop a network of normal commercial links with non-dollar areas that had, in the past, tended to refuse to open their markets for Japanese goods. The application of GATT principles would give Japan a strong lever to cultivate these markets.

SCAP was not in a position to press sterling area countries strongly for most-favoured-nation treatment in the first half of 1949 because it had recorded a huge trade surplus with the participants due to its inactive purchasing policy, as discussed in Chapter 4.\textsuperscript{23} In the second half of 1949, however, SCAP began to feel the ill-effects of the discriminatory treatment of Japanese goods when it initiated active sterling food procurement programs. These rapidly squeezed its sterling balance due to the tight and selective import controls of the participants as well as the heavy seasonal concentration of

\textsuperscript{20} L.F. Schockner to Robert R. West, Deputy to Assistant Secretary, DA, 'Report on Third Session of the Contracting Parties to the General Agreement on Tariffs and Trade, Held in Annecy, France, 20 July 1949', SCAP, 6442(26), ESS(B)03587-03588.
\textsuperscript{21} David M. Maynard, SCAP Headquarters, San Francisco, 'Status of MFN General Agreement for Japan', 23 June 1949, SCAP, 6442(17), ESS(B)03582.
\textsuperscript{22} Pickelle, 'Status Report on Japan's Foreign Trade', Undated (August 1949?), SCAP, 7651(6), ESS(A)10538.
Japanese purchases. Furthermore, news from London in September that the GATT Working Party had decided to send only West Germany and Korea an invitation to attend the Torquay Round of trade negotiations among the GATT contracting parties (scheduled for September 1950) shocked Japan. Exclusion from the list was due to the opposition of British Commonwealth and other West European countries, to the disappointment of Japanese as well as SCAP officials.24

This rejection of Japan impressed SCAP officials with the necessity to use different channels to press sterling area countries to help Japan accede to the GATT. The sterling delegates in Tokyo observed that a certain section of SCAP was endeavouring to insert a clause in the 1949/50 Sterling Trade Arrangement which would give Japan most-favoured-nation treatment. Although Pickelle did not support this idea, perhaps concerned about causing a further delay in concluding the Arrangement, it was reported that SCAP was going to make a separate presentation to each government which it felt was imposing discriminatory measures on Japanese goods.25 Pickelle did in fact draft a memorandum to the Australian representative in Tokyo protesting against Australia's discriminatory treatment of Japan. Pickelle insisted that as long as Japan granted unconditional most-favoured-nation treatment to all trade with Australia, Canberra should reciprocally extend equivalent benefits to Japan.26 There is no document to suggest that Pickelle's memorandum was actually sent to the Australian Mission in Tokyo. However, the draft memorandum does show that serious concern had emerged among SCAP officials about trade discrimination against Japan.

A direct appeal to the discriminating parties for most-favoured-nation treatment for Japan appeared in the SCAP draft Trade Agreement of the 1950/51 sterling trade negotiations. The idea was worked out in the SCAP/ESS document of mid May 1950. The ESS memorandum justified application of the GATT principles to Japanese trade, citing the 1949/50 Sterling Trade Arrangement clause that 'the parties will continue to take all steps consistent with established policies to facilitate the reestablishment of prewar commercial activities or the establishment of new ones'. SCAP interpreted this to mean that agreement

24 Memorandum of Conversation between Japanese and SCAP Officials, ‘Steps Which Japan Should Take for Eventual Participation in GATT’, 11 October 1949, SCAP, 6704(22), ESS(A)05004.
25 Cable from AM to Canberra, ‘Negotiations 9’, no.370, 4 October 1949, AA, A606, R40/1/90.
26 Pickelle to AM, ‘Discrimination against Trade of Japan’, Draft memorandum, 9 November 1949, SCAP, 6783(20), ESS(A)05958.
in principle had already been reached with the sterling participants for non-discriminatory treatment of Japan's sterling trade and for freedom of entry for Japanese merchants in the sterling area. SCAP also pointed out some positive factors which would qualify Japan to conduct trade under the GATT rules, such as the establishment of the 360 yen exchange rate in April 1949, improved labour conditions under the occupation and the introduction of a legal mechanism to preclude unfair competition. However, the memorandum did not develop an argument to counter opposition by the sterling participants, despite the warning by a SCAP official who had attended the previous GATT session that opposition to most-favoured-nation treatment for Japan from Australia, the United Kingdom and other Commonwealth countries 'seemed assured'.

As indicated by SCAP’s immediate withdrawal of the draft formal Trade Agreement, SCAP does not seem to have been seriously determined to pursue most-favoured-nation treatment for Japan in the negotiations. But the proposal for application of GATT principles to Japan's sterling trade implied SCAP’s complete departure from its previous trade policy, which was to tie Japanese trade closely with the dollar area, depending on US appropriated funds. In presenting the proposal, SCAP stated:

Japan is making every effort to develop and foster its trade along sound economic lines within the context of a non-discriminatory multilateral trading system and within the principles of the General Agreement on Tariffs and Trade (my emphasis).

SCAP had instructed the Japanese to 'develop and foster its trade along sound economic lines' in accordance with the Dodge Line. It would then be in Japan's interest to pursue the liberalisation of trade relations through various channels apart from the normal GATT forum, especially in view of the strong concern about Japan's resurgence as a trading nation, revealed in discussions over its entry into the GATT. In fact, the Japanese government was later forced to use economic diplomacy in order to pursue bilateral settlement of the trade

---

27 ESS, 'Position Paper for the Sterling Area Trade Agreement Negotiations: Application of General Agreement on Tariffs and Trade (GATT) Principles to Trade between Sterling Area and Japan', 16 May 1950, SCAP, 6687(1), ESS(A)04829.


discrimination under the GATT. The 1957 Commerce Agreement with Australia was the first successful case of such a diplomatic approach.

SCAP was undaunted by setbacks in its attempts for expansion of non-essential Japanese exports and the application of the GATT principles. As the 1950/51 sterling trade negotiations continued, SCAP proved itself determined to seek facilities to 'foster [Japan's] trade along sound economic lines' on a more multilateral basis, not only with the sterling participants but also within the whole sterling area.

**SCAP'S RIGHT TO DISPOSE FREELY OF STERLING FUNDS**

In 1950 there was still considerable demand for essential Japanese goods within the sterling area. On the other hand, it became evident that the sterling participants had only a limited capacity to supply Japan with required commodities. In view of the principle of balanced trade, the gap between high import demand and the low export capability of the sterling participants had to be filled by SCAP's purchases of non-essential commodities, or by increased procurement from the non-participants in the Sterling Trade Arrangement. It was over this issue of the range within which SCAP was allowed to use its sterling surplus that tough negotiations were thrashed out between the two sides from August until November 1950. SCAP insisted that it should be allowed to transfer the sterling balance accruing from export sales to the participants freely into procurement from non-participants. Although the participants strongly resisted this move, SCAP was firmer than it had been in the cases of increased exports of non-essential Japanese goods and the application of GATT principles.

At the final stage of drafting the Trade Plan in early August, the sterling delegates presented their latest estimate to balance overall trade at £93.6 million. While high import demand meant that the participants could absorb this amount, their supply capacity reached only £76.8 million. It was proposed that the difference be made up by enlisting £5 million for extra inconvertible working capital and £11.8 million for an unallocated purchasing reserve. The extra £5 million was to be added to the existing £10 million working capital agreed upon in the previous year, and used to tackle SCAP's sterling shortage in financing its heavy seasonal purchases. The unallocated purchasing reserve was established to provide an 'ample cushion' for any prospective Japanese deficit in transactions in invisible accounts with the sterling participants. The sterling delegates stipulated that all the
unallocated purchasing reserve had to be spent on purchases from the participants to ensure the overall balance of trade.  

In reply, SCAP rejected a clause in the first draft of the Trade Arrangement presented by the sterling participants. The clause precluded SCAP from diverting its sterling funds accruing from export sales to the participants into purchases from the non-participants without mutual agreement after due consultation. W.J. Krossner, Chief of the Trade Arrangements Branch, Foreign Trade and Commerce Division, ruled out the provision as a "complete departure" from the previous Trade Arrangement. Krossner argued that SCAP could not accept a clause proposing balanced trade only between Japan and the participants because Japan's trade with the sterling area should balance at an overall level which included the non-participants. The participants could not supply Japan with the required commodities; therefore, SCAP considered it essential to secure the right to divert freely its unused sterling surplus resulting from imbalanced trade with the participants into procurement from the sterling non-participants, thus striking an overall balance of sterling trade.

Opposition to the clause came from a number of SCAP officials. Peter McDermott, ESS Director of Foreign Trade and Services, also intervened in the informal meeting of 4 August. McDermott strongly opposed Article IV of the third draft of the Trade Agreement, which had been worked out jointly between SCAP officials and sterling delegates. McDermott flatly rejected the article's provision that diversion of purchasing power to trade with the non-participants should only be undertaken 'by mutual consent, after due consultation'. Firstly, the constraint imposed on free sterling transfers would limit the scope of Japanese sterling trade. Such restriction was 'in direct conflict' with the policy of the US administration and SCAP to conduct Japanese trade on a multilateral basis whenever possible. Secondly, the clause might constitute a violation of the Overall Payments Agreement, which gave SCAP a guarantee that sterling funds were 'freely utilisable' in any part of the sterling area. Thirdly, Article IV might cause serious administrative problems.

Russel Hale, who had succeeded Frank Pickelle as Chief of the Foreign Trade and

---


31 Thomas to Hunt, Sterling Area Trade Co-ordinator for the Sterling Participants, 'Discussion with Mr. Hale about the Draft Trade Arrangement', 20 July 1950, SCAP, 6726(19), ESS(C)05748.
Commerce Division after his death in April 1950, put the case that the clause would require SCAP to divide its sterling funds into one amount for purchases from the participants and another for purchases from the non-participants. Such a separation, although not impossible, was extremely difficult because of the lack of administrative arrangements to handle this classification.32

The sterling delegates strongly rejected SCAP’s arguments. While conceding that Article IV would ‘impose for the time being a limitation on SCAP’s use of sterling’, they said that such a limitation was inherent in bilateral arrangements for trade on a balanced basis and that the Sterling Trade Arrangement concluded by six British Commonwealth countries as one signatory was far less restrictive than any other bilateral trade arrangements entered into by SCAP. Article IV was, rather, a concession by the participants leaving some room for diversion of purchasing power. The sterling delegates also pointed out that the 1949/50 Sterling Trade Arrangement had already included a clause precluding SCAP’s diversion of purchasing power to ‘other Japanese sterling trade’ without mutual agreement after due consultation with the participants.33 Furthermore, they argued, this provision for mutual agreement had been SCAP’s initiative.34

This suggests that SCAP had not given serious consideration to the issue of free transferability of sterling funds in 1949. In the Sterling Trade Review Conference of February 1950, however, SCAP had begun to show an interest in non-participant trade. SCAP had interpreted the provision to mean that mutual agreement was required only in the event of diversion of purchasing power to or from a third country outside the sterling area. It was considered that in the case of diversion to a country participating in the Overall Payments Agreement, but not in the Sterling Trade Arrangement, this obligation would be exempted and SCAP would be entitled to transfer its sterling funds freely to purchases from the non-participants.35

32 ‘Sterling Trade Conference (Informal Meeting)’, 4 August 1950, AA, CP553/1, 194/B/10/101.
33 Telegram from UKLM to FO, no.852, 4 August 1950, AA, A606, R40/1/98.
34 It was observed that this clause was inserted at the suggestion of the US State Department to relieve the rigidity of SCAP’s bilateral trade arrangements and foster the spirit of multilateral trade. Cable from AM to Canberra, no.370, ‘Negotiations 9’, 4 October 1949, AA, A606, R40/1/90.
SCAP's emphasis on sterling transferability derived from the fact that during the second half of 1949 it made heavy purchases of foodstuffs from the sterling non-participants: rice from Burma and wheat from Iraq. The procurement was made with little consideration for balancing bilateral transactions with each of the two countries. Against the imports of £3.3 million from each country, SCAP exported only £356,000 to Iraq and £48,000 to Burma. As discussed in Chapter 5, SCAP needed to expand food procurement from non-dollar sources to cope with drastic cuts in US appropriated funds for Japan. It was more efficient for it to spend sterling funds earned from the participants on financing the procurement of foodstuffs from the non-participants than to waste funds on non-essential commodities from the participants.

SCAP's heavy procurement of foodstuffs from the non-participants, however, had a disruptive effect on the participants. In so far as Japan could obtain for sterling a large volume of foodstuffs in short supply, such as rice, other consumer countries in the sterling area might be forced to purchase such commodities from non-sterling suppliers for dollars. This could cause a serious dollar drain. Accordingly, London was determined to prevent SCAP by any means from being entitled to ‘use any surplus earned from participants to inflate his [SCAP’s] purchases of scarce commodities from non-participants’, as pointed out in the previous chapter. It was essential for the sterling delegates to secure SCAP’s concurrence in a provision for non-diversion.

The sterling participants were not on strong ground in pressing SCAP to accept a limit on sterling transfers. Firstly, the participants had once supported the increased transferability of sterling in Japanese trade. In February 1949, J.L. Hunt, Sterling Area Trade Co-ordinator representing the participants, had conceded that a ‘rigidly bilateral approach to Japanese trade should be avoided even for non-participants, since this would be contrary to the spirit of the Overall Sterling Payments Arrangement’. Secondly, SCAP had already established a fait accompli by using sterling funds earned from the participants

---

36 Sterling Area Trade Review Conference, ‘Japan’s Trade with the Sterling Area Non-Participants’, 14 February 1950, DAO, B’0.0.2.0. While the huge deficits with Burma and Iraq were partly offset by the large surplus with Pakistan, total Japanese trade with the sterling non-participants in this period culminated in a deficit of £1.3 million, with imports at £8.2 million and exports at £6.9 million.

37 Cable from Crosec to Canberra, no.100, 26 May 1950, AA, A606, R40/1/95.

38 Hunt to Deputy Chief, Fund Control Division, ‘Sterling Area Trade between Occupied Japan and Pakistan’, 11 February 1949, AA, A606, R40/1/80.
to purchase Burmese rice and Iraqi wheat in the previous year, based on the interpretation that SCAP was obligated to consult only in cases of transfer to countries outside the sterling area.

These difficulties forced the sterling participants to offer some concessions. In their revised draft Trade Arrangement dated 7 August, the sterling delegates proposed permitting the ‘temporary use’ by SCAP of sterling funds earned from the participants on purchases from the non-participants, provided that the ultimate trade balance between Japan and the participants at the end of the period as set out in the Trade Plan was not disturbed. This would minimise SCAP’s administrative difficulties in keeping sterling funds from participants and non-participants separate. It would also enable SCAP to procure food from the non-participants as in the previous year, as long as it observed sales and purchasing programs as set out in the Trade Plan with the participants. SCAP thus agreed in principle to the ‘temporary use’ of sterling funds in its revised draft Trade Arrangement dated 21 August.

At the meeting of 18 August, however, Krosnner surprised sterling delegates by insisting that SCAP’s net sterling cash balance in the order of £12 million as of 30 June 1950, which had been reserved as inconvertible working capital, would be considered sterling funds that SCAP could use freely to finance any sterling trade as circumstances required. At a subsequent informal meeting on 23 August, Krosnner further argued that the 1949/50 Arrangement had lapsed on 30 June 1950, and that the commitment to use working capital exclusively for purchases from the participants had therefore also expired. Hence, as Krossner asserted, SCAP had the free discretion to dispose of £12 million sterling as of 30 June in any transaction.

The sterling delegates strongly contested Krossner’s argument. They insisted that the 1949/50 Arrangement had not lapsed because neither party had given notice of termination as required by its provisions. The SCAP proposal was a breach of the past understanding that working capital should not be used as purchasing power for non-participant trade. The

---

39 Sterling Area Trade Delegate, ‘Trade Arrangement between Certain Countries in the Sterling Area and Occupied Japan’, Fourth draft, 7 August 1950, DAO, B’0.0.2.0.
41 Menzies to Canberra, 24 August 1950, AA, A606, R40/1/95.
delegates began to doubt whether SCAP would honour its previous commitments. They were so alarmed that they directly informed the ESS Chief, W.F. Marquat of the impasse in the negotiations caused by the approach adopted by his officials. This petition to a higher ranking official of the SCAP bureaucracy was the last resort of the participants in an attempt to break the deadlock; the sterling delegates had approached not only Marquat, but also MacArthur when McDermott refused to give them a definite assurance of non-conversion of the sterling balance into dollars in July 1949, as mentioned in Chapter 4.

Meanwhile the sterling delegates also prepared a new proposal to settle the matter. Their chairman, H.H. Thomas, thought that the only pragmatic way to break the deadlock was to include a provision allowing SCAP to ‘switch’ its purchasing power to purchases from the non-participants freely up to a maximum of £3 million. Thomas firmly rejected SCAP’s demand for free disposal of working capital. Thomas’s determination was such that he even proposed that the participants consider proceeding without a 1950/51 Sterling Trade Arrangement if SCAP maintained its present position. If SCAP was allowed to use its working capital freely as Krossner claimed, SCAP might use all its inconvertible sterling balance for food procurement from the non-participants. This would virtually mean the withdrawal of SCAP’s assurance to reserve a certain amount of inconvertible working capital. The participants were concerned that this setback might culminate in SCAP’s withdrawal of its commitment not to convert working capital into dollars. In the light of the increasing interest in food procurement from non-dollar sources since mid 1949, it is inconceivable that SCAP officials had the intention to seek dollars from sterling trade, as the participants had suspected in the first half of 1949. But the approach by McDermott and Krossner must have made the sterling delegates doubt SCAP officials’ credibility concerning their previous commitments.

The SCAP officials accepted Thomas’s proposal. In his memorandum dated 7 September to Hunt, Hale indirectly denied the allegation that Krossner had insisted that the

---

43 Ibid.
44 Thomas to Marquat, 29 August 1950, AA, A606, R40/1/103.
45 If more than £3 million of purchasing power was to be diverted, this would become a matter subject to mutual agreement after due consultation. The idea of switching purchasing power up to £3 million had been presented by Thomas to London as the ‘last resort’ to solve the deadlock when McDermott adamantly insisted on SCAP’s right of free diversion in the informal meeting on 4 August. Telegram from UKLM to FO, no.853, 4 August 1950, AA, A606, R40/1/98.
1949/50 Arrangement had lapsed, attributing this to a misunderstanding by the sterling delegates. Hale further proposed a new principle for working capital to be called the ‘open operating policy’. Its main point was to affirm SCAP’s commitment to retaining the same sterling balance at the end of each trade year as held at the end of the previous year. Hale’s reply was perceived as a positive sign of SCAP’s willingness to settle its differences with the sterling delegates.

In his memorandum of 13 September, Hale gave further details of the ‘open operating policy’. SCAP proposed that ‘actual operations under the proposed trade plan should result in increased net accrued balances in SCAP’s sterling accounts over and above the amount as of 30 June 1950’. Such an understanding would have the effect of dispelling the fear of the participants about the depletion of working capital. On the other hand, it was considered necessary to use a ‘portion of existing balance’ for Japanese procurement of raw materials from the non-participants, up to a maximum of £8 million. SCAP admitted that such a use of sterling funds would have a disruptive effect on the participants, and therefore should be avoided as much as possible. In comparison with the £3 million suggested by the sterling delegates, the proposed figure of £8 million seems to be a promising starting point for bargaining over the amount of purchasing power divertible to non-participant trade.

Intervention by McDermott, however, again brought the negotiations to a standstill. At a meeting with Thomas on 16 September, McDermott explained that the £8 million offer was not a counter-proposal to the offer of £3 million, but just an ‘outside estimate’ of the balance to be disposed of by the end of the trade year. McDermott insisted that nothing in the Sterling Trade Arrangement impinge on SCAP’s legitimate right under the Overall Payments Agreement to transfer its sterling balance freely within the sterling area, saying that any mention of a specific figure for diversion to the non-participants would imply a restriction. Moreover, SCAP’s revised draft Trade Arrangement presented soon after the meeting made no reference to mutual agreement in the event of diversion of purchasing

---

46 Hale to Head, UKLM, ‘Sterling Area Trade Arrangement’, 7 September 1950, ibid.
48 Hale to Thomas and Hunt, ‘Sterling Area Trade Arrangement’, 13 September 1950, ibid.
49 Telegram from UKLM to FO, 16 September 1950, quoted in Menzies to Canberra, 20 September 1950, ibid.
power, although it included an ambiguous provision that the parties consult each other as circumstances required for the development of trade on a multilateral basis.\textsuperscript{50}

This was a retreat from Hale's proposal of an 'open operating policy'. If SCAP was allowed, as McDermott insisted, to deplete its working capital by £8 million, it would surely do so by increasing purchases from the non-participants. And if working capital was reduced, SCAP would fall short of sterling funds during the season of heavy procurement from the participants. That might again cause SCAP to suspend the import licences of the sterling participants. Hence, there was no alternative for the sterling delegates but to stand firm against any provision which might imply depletion of working capital. In his personal memorandum to Hale, Thomas warned that if SCAP continued to insist on the right to deplete working capital, London would have to consider the possibility of proceeding 'without a trade arrangement at all for 1950-51, with the almost inevitable consequence of a drastic reduction in the volume of purchases by the participants'.\textsuperscript{51}

This tough stance had the effect of moderating SCAP's stance. In the draft memorandum from Marquat to Thomas dated 30 September, SCAP for the first time agreed 'in the exercise of good faith' not to divert its purchasing power to the non-participants except by the agreed Trade Plan or mutual readjustment of the Plan. With regard to working capital, the document confirmed that SCAP's sterling funds had to 'always be available for free utilization subject to the limitations of the Overall Payments Arrangements'. But it indirectly denied the possibility of depletion of working capital: 'unless unforeseen contingencies arise from the international situation or actions by sovereign countries, it is improbable that balances as of 30th June 1951 will be less than £12 million'.\textsuperscript{52} Although the provision contained some ambiguous expressions, this was the most promising response to date in that it specifically quoted a figure for the sterling balance at the end of the trade year.

The draft memorandum of 30 September broke the deadlock and brightened the prospects for settlement. At the meeting of 3 October, the two parties reached a basic agreement to delete altogether the most controversial clause on diversion of purchasing

\textsuperscript{50} SCAP, 'Trade Arrangement Between Certain Countries in the Sterling Area and Occupied Japan', Seventh draft, 20 September 1950, DAO, B'0.0.2.0.

\textsuperscript{51} Thomas to Hale, 23 September 1950, AA, A606, R40/1/103.

\textsuperscript{52} Marquat to Thomas, 'Trade Negotiations with Sterling Area Participants', Draft memorandum by Hale, 30 September 1950, \textit{ibid.}
power from the draft Trade Arrangement. Instead, it was agreed to attach to the Trade Plan a new footnote regarding the use of unallocated purchasing power, which was settled at £17 million. Up to £3 million of this amount could be utilised for Japanese purchases from the non-participants. It meant that SCAP had accepted the original proposal of the sterling delegates for a £3 million switch. The unallocated reserve could also be used by SCAP as extra working capital to 'accrue additional sterling finance' of up to £5 million if there was a sterling shortage.\footnote{Report of the Meeting Held on Tuesday the 3rd October, 1950, \textit{ibid.}} The sterling participants responded to SCAP's concessions with their counter-concession that they were prepared to accept the Japanese application for sterling transfer between Japan and non-sterling area countries.\footnote{Thomas to Marquat, 'Trade in Sterling by Japan with Non-Sterling Area Countries', Draft memorandum, Undated, Attached to the Report of the meeting of the Sterling Area Delegates, 9 October 1950, \textit{ibid.}}

Despite this development, it took another month to finalise the wording for the agreed memorandum on the use of inconvertible working capital. In his draft memorandum to be sent from Marquat to the Sterling Area Trade Delegation, Thomas inserted sentences that the figure of £17 million was SCAP's 'minimum requirement of sterling to meet estimated near-term commitments in the sterling area'. This amount of £17 million was reached by adding the agreed amount of £5 million for extra working capital to SCAP's existing sterling balance of £12 million as of 30 June 1950. Thomas proposed that conversion into dollars would be made if SCAP's sterling balance exceeded £17 million and 'only if such amount appears to be continuing to increase'.\footnote{SCAP to Sterling Area Trade Delegation, 'Use of Sterling Balances as Working Capital', Draft memorandum by Thomas, Undated, Attached to the Report of the meeting of the Sterling Area Delegates, 9 October 1950, \textit{ibid.}} From the viewpoint of the SCAP officials, however, considerable concessions had already been made, and such a proposal seemed to impinge further on the SCAP principle of free utilisation of sterling funds.\footnote{Trade Arrangements Branch, Foreign Trade and Commerce Division, 'Sterling Area Participants Trade Negotiations', 18 October 1950, SCAP, 6734(29), ESS(A)05421.}

Thus, SCAP countered the Thomas proposal with its revised draft memorandum dated 19 October. It replaced the amount of £17 million with £20 million and dropped the phrase 'only if such amount appears to be continuing to increase'. Furthermore SCAP avoided using the term 'working capital'.\footnote{SCAP to Head, UKLM, 'Sterling Balances', 19 October 1950, Draft memorandum, AA, A606, R40/1/103.} The SCAP officials again brought the principle
of free use of sterling funds back into issue. J.R. Allison, ESS Director of Finance, had previously objected strongly to the figure of £17 million, but he was now prepared to insert the figure of £20 million into SCAP’s draft memorandum. Allison asserted that SCAP had to retain a ‘completely free hand’ as to disposal of its sterling balance. He further insisted on the need to treat Japan’s sterling trade as a whole without separating participants from non-participants.58 SCAP had no objection to including the estimated figures of sterling balance likely to remain at the end of the trade year, but it would reject any wording or figure which might give the impression that SCAP had abandoned its right to dispose of sterling funds freely.

Allison’s attitude again raised doubts among the sterling delegates about SCAP’s intention to respect its commitment to non-depletion of working capital, as presented in Hale’s memorandum on SCAP’s ‘open operating policy’.59 They lost no time in expressing their disappointment at the introduction of an arbitrary figure of £20 million by issuing an ‘Aide Memoire’.60 It was not until 16 November that this problem was eventually settled. The outcome was the product of mutual compromise. SCAP undertook not to convert sterling into dollars unless its balance exceeded ‘outstanding commitments’ or £17 million, whichever was greater.61 While the sterling participants could specify a figure of £17 million for inconvertible sterling balance, the wording was more ambiguous, as SCAP wished, in that the £17 million was separated from ‘outstanding commitments’, giving the impression that the figure was an arbitrary one. Furthermore, the phrase ‘only if such amount appears to be continuing to increase’ was deleted from the document. The sterling delegates agreed to omit the phrase on the grounds that they feared that ‘its interpretation would almost certainly lead to controversy’.62 The amended document would impose fewer constraints on SCAP’s right to dispose of its sterling funds at will. SCAP’s concession was to present a memorandum that it would respect all of its specific commitments.

58 Meeting of the Sterling Area Delegates, 26 October 1950, ibid.
59 Hale to N.S. Roberts, Chairman and Spokesman, Sterling Area Participants Delegation, ‘Trade Negotiations with Sterling Area Participants’, Draft memorandum, 14 October 1950, ibid. This memorandum was based on the draft memorandum dated 30 September to be sent from Marquat to Thomas.
62 Telegram from UKLM to FO, no.1547, 16 November 1950, ibid.
undertaken in the Trade Arrangement, the Trade Plan, the Hale memorandum on the 'open operating policy', and the above memorandum on non-conversion of sterling. 63

DIFFERENT APPROACHES TO STERLING TRADE WITHIN THE SCAP BUREAUCRACY

The negotiations for the 1950/51 Sterling Trade Arrangement were finalised on 22 November. The fact that it took considerable time to reach an agreement over SCAP's right for free disposal of sterling funds indicates that the trade interests of both sides were at stake over this issue. Why did SCAP persist in retaining the right of free disposal?

There were conflicting opinions within the SCAP bureaucracy over SCAP's right to freely utilise sterling funds. From the organisational viewpoint, officials in charge of trade promotion could have reached an agreement with the sterling delegates. However, other SCAP officials raised objections. According to Menzies, the delay in the negotiations, particularly in the final stages, was caused by differences in approaches towards sterling trade among the officials of SCAP's Economic and Scientific Section. 64

Negotiators such as Russel Hale, Chief of the Foreign Trade and Commerce Division, and A.J. Greco, Sterling Area Trade Co-ordinator representing SCAP, adopted conciliatory approaches to the negotiations. Hale and Greco assumed responsibility for preparing the draft Sterling Trade Arrangement and the detailed figures of the Trade Plan in cooperation with the sterling delegates. Their main concern lay in securing the smooth operation of daily commercial transactions between Japan and the sterling participants. When other SCAP officials intervened and blatantly insisted on SCAP's right to deplete working capital, Hale expressed his anxiety about such an approach, since it would only result in a further delay in negotiation and unfavourably affect the Japanese economy. 65 In fact, it was estimated that the delay in finalising the 1950/51 Trade Arrangement resulted in loss of Japanese exports to the sterling area of approximately £10 million. 66

63 Hale to Roberts, 'Sterling Area Trade Arrangement', 16 November 1950, ibid.
64 Menzies to Canberra, 1 December 1950, ibid.
65 Meeting of the Sterling Area Delegates, 29 August 1950, ibid.
On the other hand, Peter McDermott, Director of Foreign Trade and Services, J.R. Allison, Director of Finance, and William Krossner, Chief of the Trade Arrangements Branch, Foreign Trade and Commerce Division, wanted to ensure SCAP’s legitimate rights as assured by the Overall Payments. They insisted that the Overall Payments Agreement entitled SCAP to dispose of sterling funds in hand at any time for any purpose, for example, in trade with the non-participants in the Sterling Trade Arrangement except Hong Kong. They were opposed to any clause or expression which might be interpreted as indicating that SCAP had relinquished the right to spend its sterling funds in this way, or that SCAP had undertaken to use a certain portion of balance exclusively for purchases from the participants. They were only prepared to concede the insertion of estimates of the amounts which SCAP was likely to reserve for trade with the participants ‘in good faith’.

These officials persisted in their strict interpretation of SCAP’s rights over sterling funds, despite the anticipated adverse effects on the Japanese economy. Since the Directors were authorised to give advice directly to the ESS Chief, both McDermott and Allison had the power to intervene in the negotiations. This was not the first time that McDermott had made full use of his power to uphold SCAP’s rights as endorsed by the Overall Payments Agreement. In July 1949, McDermott refused to confirm SCAP’s commitment to waive its right to convert sterling surplus into dollars. This action provoked serious concern about a dollar drain among the participants and caused them to suspend import licensing of Japanese goods. Since McDermott’s intervention often worked against the interests of the participants and the smooth operation of Japan’s sterling trade, the sterling delegates labelled him as an extremely obstructive person.67 In the 1950 negotiations, McDermott adopted such an uncompromising stance that even other SCAP officials revealed their concern about its effect on the negotiations. At the end of August, Hale and other trade officials informed Hunt of their disagreement with McDermott’s approach on the grounds that his attitude would make it impossible to bring the sterling participants into an agreement over the issue of working capital.68

Although he was an official of the Foreign Trade and Commerce Division, Krossner, as the chief of its Trade Arrangements Branch, had the responsibility to examine the

67 Menzies to Canberra, 6 September 1950, AA, A606, R40/1/95.
68 Meeting of the Sterling Area Delegates, 29 August 1950, AA, A606, R40/1/103.
provisions of Japan's trade arrangements. He adopted a strict legalistic approach to every line of the clauses lest arbitrary interpretation should prevail. In the 1950 negotiations, Krossner worked closely with McDermott. When McDermott and Krossner insisted on a free transfer of sterling funds into non-participant trade at the informal meeting in August, it was reported that their views were derived without full communication with other SCAP officials. 69

As Director for Finance, Allison was concerned about the financing of Japan's sterling trade. In 1950 Japan recorded huge deficits in trade with sterling non-participants such as Burma and Iraq because of its heavy imports of foodstuffs. From the sterling delegates' perspective, there was little hope of SCAP being able to balance trade with the non-participants. This moved Allison to firmly oppose separate treatment for non-participant trade. 70 From the legal viewpoint, the Overall Payments Agreement provided for free use of sterling within the area. The SCAP financial people found that these provisions justified their claim for free diversion of sterling funds earned from the participants into non-participant trade.

The Chief of the Economic and Scientific Section, W.F. Marquat, played a role in settling the differences of opinion among his trade and financial officials. He was approached by the sterling delegates when a deadlock resulted from the tough approaches of McDermott, Krossner and Allison over the free use of sterling funds. On such occasions, the sterling delegates considered it best to approach Marquat directly because they had the impression that he had not been informed of the tough policies adopted by his officials and the resultant impasse in the negotiations. 71 When McDermott and Krossner insisted on SCAP's right to dispose freely of its working capital, a direct approach to Marquat resulted in Hale's proposal for an 'open operating policy' under which SCAP undertook to make every effort not to deplete working capital. The fact that this was a far more conciliatory policy than McDermott's suggests that Marquat rejected McDermott's claim and supported the case of the trade officials for early settlement of the Trade Arrangement to avoid any interruption of Japan's trade with the participants. Marquat had made a similar decision

---

69 Ibid.
70 Meeting of the Sterling Area Delegates, 26 October 1950, AA, A606, R40/1/103.
71 Meeting of the Sterling Area Delegates, 29 August 1950, op.cit.; Cable from AM to Canberra, 'Trade Negotiations', no.517, 29 August 1950, AA, A606, R40/1/95.
when McDermott insisted on SCAP’s right to claim conversion into dollars. Alarmed at this, the sterling delegates had petitioned Marquat to waive convertibility in February 1949.

Marquat did not always side with the trade officials. On 10 October, the sterling participants proposed inserting into SCAP’s memorandum on non-depletion of working capital a sentence stating that the intention of the sterling participants in agreeing to increased working capital had been to provide SCAP with adequate sterling finance to make purchases from the participants. Hale was receptive to the proposal on the condition that appropriate language could be found to clarify that the sentence was simply a restatement of the position of the sterling participants but not of SCAP. Asked his opinion, however, Marquat made a final decision to reject insertion, supporting Allison’s recommendation that the sentence could create future differences over its interpretation. Marquat also did not try to intervene when Allison proposed at the final stage of the negotiations that the figure of non-convertible sterling balance should be of an arbitrary nature. Although Allison’s manner was uncompromising enough to upset the sterling delegates, he did not have to withdraw his proposal as McDermott had done in the earlier stages. On the contrary, the sterling negotiators were told that it would be difficult to get approval inside the SCAP bureaucracy for any other form of provision on the non-convertible sterling balance.

The above intra-organisational differences of view over free disposal of sterling funds mask the important shift in SCAP’s approach to sterling trade, from dollar conservation to expansion of overall trade. The negotiation process suggests that SCAP’s ultimate objective was to exclude any clause which might work to restrict the right of free disposal of sterling funds. The fact that the intervention by McDermott and Krossner protracted the settlement of this issue considerably may give us the impression that these officials tried to obstruct the establishment of a freer institutional framework for Japan’s sterling trade, as they did in 1949. However, in common with trade officials such as Hale and Greco, it was their intention to promote sterling trade on a more multilateral basis. McDermott, Krossner and Allison perhaps tried too hard to facilitate the financing of procurement of foodstuffs from the sterling non-participants through diversion of purchasing power earned from export sales to the participants. These supplies from the sterling area would help to lessen

72 Krossner, ‘Sterling Area Trade Participants’ Trade Negotiations’, 10-11 October 1950, SCAP, 6738(29), ESS(A)05421.
73 Krossner, ‘Sterling Area Participants Trade Negotiations’, 18 October 1950, ibid.
Japan’s dependence on US commodities. In this sense, there was consensus between SCAP trade and financial officials over the need to link Japan’s economic self-reliance under decreasing US appropriated funds with promotion of sterling trade. SCAP’s positive approach to sterling trade is further endorsed by the more liberal operation of the Sterling Trade Arrangement, it displayed in this period.

**SCAP’S NEW LIBERAL IMPORT FINANCING POLICY**

There is no denying that SCAP’s interest in trade with the sterling area had increased remarkably compared with previous years. Firstly, it was a SCAP initiative which led to increased trade with the sterling area. SCAP pressed for active purchasing from the sterling participants, showing that it appreciated the significance of the sterling area as a supplier of important commodities to Japan. On the other hand, anxious not to run short of their own commodities through excessive purchases by Japan, the sterling participants responded cautiously. This SCAP initiative was in sharp contrast with the 1949/50 sterling trade negotiations, in the initial stages of which SCAP had revealed extremely limited interest in procurement from the sterling area.

Secondly, SCAP made several moves to promote exports to the sterling area. In previous years SCAP had blamed the participants for overbuying from Japan, as it was necessary for Japan to concentrate on exports to the dollar area in order to offset its huge dollar deficit. In an attempt to expand the 1950/51 Trade Plan, SCAP called for increased purchases of less essential Japanese goods by the participants. The proposal for application of the GATT principles to sterling trade was aimed at facilitating Japanese exports to the participants. These requests were clear messages from the occupation authority signalling the increasing significance of sterling export markets for the Japanese economy.

In fact, SCAP made a quick response when the sterling delegates complained that Japanese exporters tended to discriminate against sterling buyers in favour of dollar earnings, taking advantage of special procurement during the Korean War. In October 1950, they were informed of the SCAP attitude to the problem:

SCAP officials had recently warned M.I.T.I. of the danger of diverting Japanese trade away from long established customers in the Sterling Area in favour of supplying goods to U.S.A. for Korea. SCAP officials had emphasized to M.I.T.I. that if prices were raised against the Sterling Area buyers, and if
delivery was unduly delayed, there was a danger that Sterling Area buyers would find it more profitable to switch their purchases elsewhere, and having once done so their trade might be permanently lost to Japan.\textsuperscript{74}

SCAP had never before issued such an explicit statement as to the importance of the sterling area markets in the Japanese trade network.

Thirdly, SCAP officials in charge of financing of trade relaxed their tight control on sterling funds. At first, they introduced control on import licensing in order to tackle sterling shortages caused by heavy seasonal purchases and the slow relaxation of import restrictions against Japanese goods; this caused purchases from the participants to be considerably curtailed by May 1950. Paul Cleveland, the Controller of SCAP’s foreign exchange funds up to his death in April 1950, had taken an extremely cautious approach to the use of sterling funds for trade. He had never permitted the issuance of import licences unless there was an adequate amount of sterling cash in sight in the SCAP account. Later, however, the change in SCAP personnel steered the administration of sterling trade finance in a less restrictive direction.

One development after Cleveland’s death was that SCAP’s sterling fund controllers began to seek a new means of financing sterling trade instead of tight import controls in order to cope with short-term sterling shortages. A couple of weeks after the conclusion of the 1950/51 Trade Arrangement, R.H. Marlow, who took over from Cleveland as Acting Controller, informed the sterling delegates of SCAP’s intention to ‘swap’ a part of its abundant dollar reserves between £10 and £15 million into sterling. Marlow revealed his view on ‘swapping’:

\begin{quote}
He [Marlow] had made it clear that he was thinking in terms of increasing the level of sterling procurement beyond Japan’s expected sterling income from exports under the Trade Plan, and that he wished to be free to finance these increased procurements by increased ‘swaps’, in the hope that the Sterling Area would match Japan’s increased purchases.\textsuperscript{75}
\end{quote}

S.T. Baron, who had been working under Marlow, had an even more positive view of sterling trade. Although he conceded that he had had considerable difficulties in getting the

\textsuperscript{74} Meeting of the Sterling Area Delegates, 19 October 1950, AA, A606, R40/1/103.
approval of his colleagues, Baron felt that ‘Japan’s trade could only expand satisfactorily if it were accepted by SCAP that Japan’s purchases from the Sterling Area must always be considerably ahead of Japan’s sales’. Purchasing ahead of sales would certainly involve the risk of inviting a sterling shortage. The admission by one of the officials in charge of sterling trade finance of the need to import before obtaining an adequate amount of sterling cash through export sales marked a clear departure from Cleveland’s conservative policy.

In fact, SCAP had developed a more liberal import financing policy for Japan by late 1950. In November 1950, the ESS Foreign Exchange Budget Committee presented new recommendations on the financing of foreign trade. The memorandum advocated the revision of the import policy ‘to permit a more liberal use of available funds’. This meant that raw materials and foodstuffs should be imported from sources which could ‘offer Japan the best buy on the basis of price and usual commercial considerations regardless of funding, even though this might require modification of certain Trade Plan commitments’. With regard to the sterling area, the Foreign Exchange Budget Committee ruled that ‘the purchase of sterling with dollars to meet financing requirements would be justified if competitive prices or other commercial considerations made it preferable to buy from the Sterling Area rather than a dollar source in the first place’. The underlying idea was that ‘[s]uch a policy would provide a better opportunity for Japanese industry to secure the raw materials required for both export and domestic production and the Japanese economy would benefit accordingly’. The recommendations were based on the observation that procurement from the sterling area and some other non-dollar, non-sterling trade arrangement countries had been restricted due to a shortage of foreign exchange but that great benefits were now envisaged from expansion of trade with these areas. The memorandum marked a shift in SCAP’s emphasis from dollar saving and cautious trade financing to the economical procurement of industrial raw materials.

SCAP’s liberal import financing policy reflected the new international trade circumstances caused by the outbreak of the Korean War in June 1950. Hale, the Chief of the Foreign Trade and Commerce Division, set out a new foreign trade policy in his memorandum dated 18 November 1950. The memorandum noted two recent changes in

---

76 Ibid.
77 Foreign Exchange Budget Committee, ESS, ‘Foreign Trade Financing Policy’, 6 November 1950, SCAP, 6709(21), ESS(C)05430.
Japan’s economic situation: the improved dollar position due to the special procurement for the US Army, and the increasing difficulties in procurement of foodstuffs and raw materials under sellers’ market conditions. Based on grave concerns about the reduction in both exports and domestic consumption caused by shortages of industrial raw materials, Hale asserted that Japan’s existing trade and financial policies ‘must be liberalized to maximize the import of foodstuffs, essential raw materials and other commodities at prices and under conditions most favourable to Japan’. The memorandum recommended the extensive utilisation of abundant dollar funds, should the situation require, for procurement from the sterling and other non-dollar areas.

This document clearly indicates that SCAP gave the highest priority to preventing any disruption in the supply of foodstuffs and raw materials to maintain Japan’s industrial operations. This explains SCAP’s strong persistence in securing sterling transferability and the right of free disposal of sterling funds in the 1950/51 sterling trade negotiations. SCAP showed a readiness to accept a ‘switch’ of sterling earnings from participant into non-participant trade, up to the value of £3 million. This would enable the mobilisation of sterling funds to finance urgent import contracts with suppliers from the non-participant countries without British approval, even though SCAP was obligated to put certain restraints on purchases from the non-participants in order to maintain the agreed £17 million sterling balance at the end of the trading year. This would virtually give SCAP free disposal of sterling funds, at least in short term import financing. What SCAP did not want was a situation where it was obliged to obtain British approval on every occasion it wished to finance imports from the non-participants using sterling.

Although SCAP observed that the new trade circumstances would offer good opportunities to cultivate Japan’s export markets, this objective was not perceived as being of utmost importance. Apart from essential goods such as raw cotton, most countries had not shown any willingness to purchase Japanese goods. According to the Foreign Trade and Commerce Division, in a situation in which the world’s major trading countries were allocating an increasing proportion of their industrial capacity to armaments production, Japan could expect to establish its position in export markets ‘when resistance to Japanese goods will be lower because of the inability of normal sources’ to meet their import

78 Hale, ‘Foreign Trade Policy’, 18 November 1950, SCAP, 6698(25), ESS(B)06753.
demand. Therefore, 'continuing efforts' had to be made to introduce freer multilateral trading conditions. This consideration was in line with the SCAP proposal for application of the GATT principles in the sterling trade negotiations. But Hale admitted the limits of this approach:

It must be recognized, however, that this requires agreement on the part of the other governments concerned. Although agreeing in principle on the desirability of multilateral trade, in practice, various countries of the world find it necessary to impose exchange controls and other trade restrictions. Japan's dependence upon foreign trade makes it impossible for her to divorce her trade and financial policies from those of other trading nations. 79

This pragmatic observation on international trade circumstances made SCAP further stress the significance of bilateral trade and payments agreements for Japan's economic self-reliance. Hale's memorandum of 18 November set out the principle that 'preference in the expenditure of dollars should be given to trade agreement countries over countries which have made no arrangements'. Trade arrangements were favoured, firstly, to enhance export opportunities, as experience had shown that Japan's dollar liability to a certain creditor country tended to give the creditor country an incentive to increase purchases from Japan. And secondly:

Should Japan's dollar position become less favorable in the future or should her requirements for essential 'dollar' commodities decrease, no change in existing agreements or arrangements would be required to readjust Japan's trade and financial policies to take care of such eventuality. 80

This consideration suggests that SCAP envisaged a return to the pre-Korean War situation where Japan could not count on an abundant dollar supply. In other words, it was in line with the strategy for Japan's economic self-reliance through trade promotion on an unsubsidised commercial basis into more multilateral channels, as prescribed under the Dodge Line. Therefore, the expansion of Japan's commercial networks through bilateral trade and payments agreements was found to be an important instrument to cope with the lingering worldwide dollar shortage and the suspension of dollar convertibility of currencies. In view of the large volume of trade covered by the Sterling Trade Arrangement and the

79 Ibid.
80 Ibid.
financial facilities provided by the Overall Payments Agreement, it is no wonder that SCAP recognised the significance of sterling trade.

Australia's position under SCAP's new import financing policy remained strong. SCAP had revealed its intention to expand procurement in sterling from the non-participants — particularly rice from Southeast Asia — making use of sterling earnings from the participants. Resistance by the participants to SCAP's claim to entitlement of free disposal of sterling funds drew from it a commitment to establishing a £3 million ceiling on the free 'switch' of purchasing power to non-participant trade. Combined with the inflated size of the 1950/51 Trade Plan, this limit on the 'switch' meant that SCAP would have to continue to expand purchases from participants, including Australia, to achieve balanced trade.

To take the example of wool procurement, SCAP's liberal import financing policy created strong demand by the Japanese textiles industry for Australian wool in 1950. With the return of Japan's import trade to private channels from January 1950, SCAP abolished the coordination of Japan's wool procurement undertaken by Draper and Company, which had given non-Australian wool producers marketing opportunities in postwar Japan, as mentioned in Chapter 3. The abolition of the coordination system enabled the Japanese woollen industry to concentrate on purchases of their favourite Australian merino wool. The increased allocation of the foreign exchange budget to purchases of raw materials during 1950 further promoted sales of Australian wool. Table 6.1 shows that Australia regained its prewar dominant position in Japanese wool imports during 1950. The Japanese rush into Australian wool markets reflected the potential for Australia and Japan to develop flourishing trade relations once trade was conducted on a less restrictive, more multilateral basis.

The 1950/51 sterling trade negotiations revealed SCAP's quest for the development of Japan's sterling trade on a freer, more multilateral basis, to be achieved through increased exports of non-essential Japanese goods and the application of GATT principles to sterling trade. The sterling participants desperately resisted these moves, reflecting strong domestic concern about the revival of Japanese trading activities. SCAP persisted in asserting its right to dispose freely of sterling funds to make procurements in sterling not only from the participants but also from non-participants. Although SCAP's insistence on this right prolonged the negotiations, this did not mean that its officials intended to restrain the
expansion of sterling trade in favour of dollar savings, as they had tried to do in previous negotiations. On the contrary, SCAP adopted a more liberal import financing policy, as its approval of dollar swaps to obtain sterling credits indicates.

Table 6.1  Japan's Wool Imports, January 1950–March 1951

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia (%)</td>
<td>49,680</td>
<td>65,412</td>
<td>144,992</td>
<td>260,084</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,474</td>
<td>1,340</td>
<td>6,566</td>
<td>9,380</td>
</tr>
<tr>
<td>South Africa</td>
<td>215</td>
<td>1,283</td>
<td>1,460</td>
<td>2,958</td>
</tr>
<tr>
<td>South America</td>
<td>1,686</td>
<td>1,810</td>
<td>3,594</td>
<td>7,090</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>427</td>
<td>1,898</td>
<td>3,842</td>
<td>6,167</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>2,797</td>
<td>14,055</td>
<td>16,857</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53,487</strong></td>
<td><strong>74,540</strong></td>
<td><strong>174,509</strong></td>
<td><strong>302,536</strong></td>
</tr>
</tbody>
</table>


Thus, the 1950/51 Sterling Trade Arrangement negotiations clearly revealed that SCAP had consolidated its commitment to the strategy of Japan's economic self-reliance through trade promotion on a more multilateral basis. The delay in reaching an agreement mainly resulted from the ambition of SCAP officials to place Japan's sterling trade on a freer, multilateral basis, as illustrated in their insistence on SCAP's right of free disposal of sterling funds. It is noteworthy that SCAP's emphasis on increased procurement from the sterling non-participants coincided with the emergence of a proposal to integrate the Japanese industrial capacity with the economic development of the non-Communist Southeast Asian countries on a normal commercial basis, as pointed out in Chapter 2. Extensive use of bilateral trade and payments agreements was considered the best solution to link postwar Japanese commercial networks with the region under a worldwide dollar shortage. Since the Overall Payments Agreement covered the largest portion of Japan's trade with Asia, it was important for SCAP to establish a freer institutional framework for trade with the sterling area, in order to proceed with this strategy.
SCAP’s positive approach to promotion of Japan’s sterling trade was, however, soon to be reviewed. The administration of foreign trade was to be handed over to the Japanese government from the end of 1950 to early 1951. This meant that the Japanese government, rather than SCAP, would become the new determiner of trade policy. While SCAP had shown its readiness to expand purchases from the sterling area, even at the cost of spending its dollar reserves to procure from sterling sources, the Japanese government had a different view on strategy to reestablish Japan’s trade networks in the post-Peace Settlement period. The difference was to emerge in the subsequent negotiations for revision of the Overall Payments Agreement.
Japan at the Crossroads in Postwar Trade Development: The New Sterling Payments Agreement of 1951

The Japanese government took over from SCAP the power to negotiate a new Sterling Payments Agreement when the United Kingdom expressed its intention to terminate the existing Overall Payments Agreement in early 1951. Britain was determined to delete the dollar convertibility clause in the new Payments Agreement. The clause aimed to impose exchange control to guide a certain portion of Japanese exports into dollar markets. The dollars earned were used to finance imports of strategic raw materials and foodstuffs from the United States. Deletion of the clause would mean further integration of Japanese trade with the sterling area, as Japan's purchasing power of sterling commodities would have to be expanded through increased export sales to the sterling area. At the same time, however, if the supply capacity of the sterling area countries did not match their demand for Japanese imports, deletion of the clause would incur the risk for Japan of an excessive accumulation of unusable sterling funds. Since a large part of essential Japanese export goods to the sterling area was produced from raw materials financed in dollars, an excessive accumulation of sterling funds would mean a dollar drain for Japan. If the Japanese were seriously concerned about dollar earnings, as was SCAP in the 1948/49 sterling trade negotiations, it was in Japan's interest to retain the dollar convertibility clause by any means. The outcome of the sterling payments negotiations, therefore, would have a significant effect on the direction of Japan's post-independence trade networks.

This chapter examines the different approaches to dollar convertibility and the sterling payments negotiations of SCAP and the Japanese government. SCAP emphasised the promotion of Japan's sterling trade on a multilateral basis, through such measures as increasing the transferability of Japan's sterling balance. On the other hand, concerned about excessive sterling accumulation, the Japanese government wanted to retain the dollar convertibility clause to restrain exports to the sterling area. Japan was prepared to propose
that it be included in the dollar area, even at the cost of the trade network with the sterling area established by SCAP under past Sterling Trade Arrangements. Behind this proposal, which might severely reduce the existing level of sterling trade, lay optimism among the Japanese about the prospects of dollar earnings, derived from excessive expectations for the US-Japan Economic Cooperation Program. British determination and the political necessity to settle the negotiations before the opening of the San Francisco Peace Treaty, however, forced the Japanese government to accept the deletion of the dollar convertibility clause. Reluctantly, Japan chose to direct its post-independence trade networks more towards the sterling area, abandoning its quest for dollar-based trade. This decision was crucial in the evolution of Japan’s postwar strategy for trade promotion on a more multilateral basis.

THE BRITISH PROPOSAL FOR DELETION OF THE DOLLAR CONVERTIBILITY CLAUSE

By early 1951, it had become necessary to revise the Trade Plan as agreed in the 1950/51 Sterling Trade Arrangement. In January and February, the Sterling Area Trade Review Conference was held between SCAP and the participants to review the 1950/51 Sterling Trade Arrangements. SCAP demanded a revision of the Trade Plan which had been based on commodity prices as of July 1950 on the grounds that there had been considerable changes in ‘basic factors’, including sharp price rises and non-availability of commodities due to the Korean War Boom. In only five months, from 1 July to 30 November 1950, Japanese purchases from the sterling area reached 80 per cent of the £93.6 million scheduled in the 1950/51 Trade Plan. In order to cope with the tight supply and the financial stringencies, SCAP insisted on inflating Japan’s purchasing power during 1950/51 to £136 million while requesting the participants to relax import licensing on Japanese goods.

1 Sterling Area Trade Review Conference, ‘First Meeting of the Committee of the Whole’, 16 January 1951, AA, A606, R40/1/105.
2 Japan imported the total sum of £72.5 million in the five months, while exporting £48.6 million. Controller, ESS, ‘Sterling Area Trade: Under 50–51 Trade Plan’, 10 December 1950, AA, A606, R40/1/103.
3 Sterling Area Trade Review Conference, ‘Second Meeting of the Committee of the Whole’, 17 February 1951, AA, A606, R40/1/105.

174
SCAP’s request for a relaxation of import licensing renewed Britain’s determination to enter into negotiations for a new Sterling Payments Agreement with Japan with no dollar convertibility clause. In its cable of 28 February 1951 to the governments of the sterling participants, London pointed out the defects in the existing sterling trade and payments agreements with Japan. Firstly, the dollar convertibility clause had caused unduly restrictive effects on Japan’s sterling trade. Secondly, the existence of bilateral trade arrangements between Japan and certain sterling area countries such as Pakistan would eventually impair the unity and negotiating power of the whole sterling area. In view of these predicaments and with the conclusion of a Japanese Peace Treaty in sight, London revealed its decision to announce on 31 March the required three-month notice of its intention to terminate the Overall Payments Agreement. Britain expected that a new Sterling Payments Agreement without a dollar convertibility clause would facilitate trade between Japan and the sterling area, as it would introduce ‘a more liberal criterion for imports from Japan than essentiality’ and help to encourage ‘the widest possible use of sterling as currency of international trade and payments in the Far East as elsewhere’.

Despite its stated position, London’s real intention at this stage still lay in the minimisation of the risk of dollar liability in Japanese trade. The British government insisted on the need to continue to exercise a degree of restraint on purchases from Japan even under the proposed new Payments Agreement. Although Japan’s dollar position was favourable due to Korean War special procurements, Japan’s dependence on the United States for essential industrial raw materials such as raw cotton might entice Japan to extract dollars from the sterling area. It could do this either by dollar-invoicing in exporting essential goods in short supply or by claiming conversion of its sterling balance, particularly if it became large. According to Australian officials in London, while the Board of Trade considered it inevitable for Japan to have a reasonable accumulation of sterling funds, the

---

4 Cable from Crosec to Canberra, no.43, 28 February 1951, ibid.
5 Pakistan had refused to join the Sterling Trade Arrangements and individually concluded a bilateral trade arrangement with SCAP in September 1950. In response to London’s cable, the Pakistani government informed London of its intention to continue the existing bilateral trade arrangement with Japan. Cable from the government of Pakistan to Canberra, 13 March 1951, ibid.
6 Cable from Crosec to Canberra, no.43, 28 February 1951, ibid.
Treasury would not admit that the risk of dollar liability in Japanese trade was negligible and stressed the importance of retaining tight import controls.  

London's cautious approach conditioned subsequent negotiations with SCAP. Having decided to announce its intention to terminate the Overall Payments Agreement, the UK government was concerned about the risk of conversion of the sterling balance to be left in SCAP's hands at the termination date. In response to a SCAP request that purchases by the participants should match SCAP's proposed expanded purchases of £136 million, the UKLM agreed to issue import licences up to £136 million on condition that before conclusion of any future payments agreement, Japan's sterling balance should be regarded as inconvertible.

At first, SCAP avoided giving any such definite assurance of inconvertibility. However, as SCAP's sterling position deteriorated in mid March, the Controller of SCAP's foreign funds made a strong plea for a dollar swap to finance sterling trade. The UKLM Financial Adviser, H.H. Thomas, declined to take up the issue until 'there was a proper ruling about the question of convertibility'. SCAP showed its readiness to give the requested guarantee on condition that 'it did not prejudice future negotiations with regard to payments agreements, it did not alter the existing O.P.A. in any other respect, and that the Sterling Area would give SCAP swap facilities on demand as required'. In early April, it was eventually agreed that SCAP would 'regard any sterling balance as of 30 June 1951 or thereafter pending conclusion of a new payment agreement or until 31 December 1951, whichever earlier, as not convertible'. This agreement made it unnecessary for Britain to take the formal step of repudiating the Overall Payments Agreement, allowing the Agreement to lapse as soon as a new payments agreement was signed.

---

7 Cable from Australian High Commissioner's Office in London to Canberra, 9 March 1951, ibid. The Australian government did not share London's pessimistic view. Canberra observed that the risk of dollar drain was negligible because Japan would continue to need sterling funds for 'payment for arrears, resumption of sterling debt service and as part of her foreign exchange reserve'. Cable from Canberra to Australian High Commissioner's Office in London, no.1340, 6 March 1951, ibid.

8 Cable from Crossec to Canberra, no.44, 1 March 1951, ibid.

9 N.S. Roberts, Commercial Minister, UKLM, to Hale, Chief, Foreign Trade and Commerce Division, ESS, 2 March 1951, ibid.


11 SCAP to Head, UKLM, 'Sterling Area Trade', 6 April 1951, AA, A606, R40/1/105.

Two objectives lay behind SCAP’s concession on the non-convertibility of sterling funds at the termination date. Firstly, as already mentioned, SCAP needed to obtain an extension of £15 million additional sterling credits through a dollar swap in order to improve its deteriorated sterling position. Secondly, SCAP did not wish to let the United Kingdom pre-empt negotiations on the convertibility of Japan’s sterling funds into dollars by formally terminating the Overall Payments Agreement. In this way, SCAP also hoped to avoid prejudicing the forthcoming negotiations, which would be conducted by the Japanese government. By early January 1951, with the conclusion of the Peace Treaty imminent, the Foreign Trade and Commerce Division was prepared to hand over its negotiating power to Japan. The stage was set for negotiations for a new Sterling Payments Agreement between the United Kingdom and the Japanese government.

SCAP’S APPROACH TO THE DOLLAR CONVERTIBILITY CLAUSE

The British request for non-convertibility of the sterling balance at the termination of the Overall Payments Agreement did not attract opposition from the ESS fund controllers, who had insisted on the right of free disposal of sterling funds of the sterling trade negotiations in the previous year. This liberal approach on the dollar convertibility clause in April 1951 was in direct contrast with SCAP’s restrictive approach in July 1949, when the sterling delegates even suspected that SCAP might look to sterling trade as a source of dollar income.

At this stage, it is worth tracing the evolution of SCAP’s ideas about the dollar convertibility clause and Japan’s sterling trade. In mid 1949, SCAP had no intention of allowing the dollar convertibility clause to be deleted. In his memorandum of July, Marquat asserted that the clause should be retained in order to check excessive accumulation of unusable sterling funds. Marquat’s recommendation was based on the lower priority given to sterling trade. Pointing to the poor supply capacity and dearer commodity prices of the sterling area, he argued that ‘it would be unwise for SCAP to be stampeded into a buying spree, during a period of declining prices for materials not essential for the domestic economy or for the export program of Japan merely for the sake of expending his [SCAP’s]

---

13 Hale to Marquat, ‘New Trade Arrangements Operating Policy’, 25 January 1951, SCAP, 6715(37), ESS(B)07008.
surplus balances’. Marquat even asserted that it was ‘not desirable for Japan to direct her foreign trade into sterling channels’ because it would ‘place Japanese trade in the hands of the sterling area trade authorities in that trade could be minimized or maximized according to their dictates’ and that Japan should ‘expand its trading areas in order not to be dependent upon any single customer’ even at the price of decreased purchases from the sterling area.14 All SCAP would concede at this stage was to waive convertibility of sterling funds up to $15 million. This was the minimum needed to prevent a complete closure of sterling trade.

A couple of weeks before Marquat’s memorandum, the ESS Textile Division presented an interesting proposal on the use of sterling funds: to gain British approval to export for sterling some goods produced from Japan’s indigenous or sterling raw materials (such as woollen and worsted yarn and piece goods, raw silk, silk piece goods) to other, non-dollar, non-sterling countries.15 Although these goods did not sell well in sterling markets, the report of the SCAP trade mission to South America had indicated good marketing potential there. Furthermore, some Latin American countries, such as Argentina, Uruguay and Peru, had accumulated a large sum of unusable sterling. This sterling could stimulate Japan’s trade with South America; Japan might in return be able to purchase important raw materials and foodstuffs without dollar spending. Of course, it was unlikely that the British financial authority would endorse such a facility, because it would allow Japan to further accumulate a sterling balance which could be converted into dollars under the Overall Payments Agreement. But the proposal of the Textile Division did show that SCAP might be more interested in sterling trade, if it could use the sterling funds earned from the participants over a wider range.

In fact, SCAP came to place more emphasis on sterling transferability than retention of the right of dollar convertibility. In its memorandum of March 1950, which was drafted in response to Washington’s inquiry about possible inclusion of Japan in the transferable sterling account system, the ESS Foreign Trade and Commerce Division advised Marquat that ‘a reappraisal of the convertibility provision of the Sterling Overall Payments

14 Marquat to Chief of Staff, ‘Sterling Area—Occupied Japan Trade Agreement’, 19 July 1949, SCAP, 6734(25), ESS(A)05419.
15 RD. Cleaves, Chief, Textile Division, to Chief, Foreign Trade and Commerce Division, ‘Sterling Area Trade Arrangement’, 5 July 1949, SCAP, 6680(12), ESS(C)05161.
Arrangement is considered appropriate’. The Chief of the Division, Pickelle, asserted that SCAP’s right to convert sterling was ‘solely theoretical’, for the past operation of the Sterling Trade Arrangement proved that ‘under no conditions would Japan be permitted to acquire sterling balances in excess of the requirements for near term commitments and of the agreed upon £10,000,000 for working capital’. This observation was based on SCAP’s tight sterling position since late 1949 due to its heavy seasonal purchases and the slow relaxation of import licensing by the sterling participants. The Foreign Trade and Commerce Division went so far as to recommend including an amendment to the Overall Payments Agreement to eliminate the dollar convertibility clause. The Division ruled out the danger of excessive accumulation of unusable sterling, on the grounds that Japan’s Foreign Exchange and Trade Control Law, enacted in December 1949, would establish the machinery to check the flow of foreign currency reserves.

The Foreign Trade and Commerce Division further proposed that Japan be included in the Transferable Sterling Account Countries under the British exchange control criteria. Figure 7.1 gives a classification of countries by the UK financial authority. Since Japan had been listed among the Bilateral Countries, without approval of the Bank of England its sterling balance was transferable only to the Scheduled Territories, that is, the sterling area. Transfer within the sterling area was further restricted by the provisions of the Sterling Trade Arrangement, which stipulated the ceiling to be placed on diversion of Japan’s purchasing power earned from the participants into trade with the non-participants. If the United Kingdom agreed to categorise Japan as a Transferable Account Country, the range of countries to which Japan could freely make payments in sterling for its commodity procurement would be widened to cover all the Scheduled Territories, Other Countries and Transferable Account Countries.

---

17 The Foreign Trade and Commerce Division envisaged that control of sterling accumulation would be exercised by invoking new legislation prohibiting exports of specific items to the sterling area for a specific period in accordance with Article 51 of the Foreign Exchange and Trade Control Law. A.J. Greco, Sterling Area Trade Coordinator representing SCAP, to W.J. Krossner, Chief, Trade Arrangements Branch, Foreign Trade and Commerce Division, ‘Transferable Sterling’, 18 April 1950, SCAP, 6680(21), ESS(C)05187.
18 Pickelle to Marquat, 6 March 1950, op.cit.
Figure 7.1: United Kingdom's Exchange Control Regulations: Outline of Permissible Transfers, January 1949

American Account Countries
Bolivia; Columbia; Costa Rica; Cuba; Dominican Republic; Ecuador; Guatemala; Haiti; Honduras; Mexico; Nicaragua; Panama; Philippine Islands; Salvador; USA. and its Dependencies; Venezuela

Transferable Account Countries
Anglo-Egyptian Sudan; Chile; Dutch Monetary Area; Egypt; Ethiopia; Finland; Iran; Italy; Norway; Poland; Siam; Spanish Monetary Area; Sweden; Soviet Union

Other Countries
Albania; Arabia; Afghanistan; Ex-Italian Colonies; Liberia; Nepal; South Korea

Scheduled Territories (Sterling Area)
Australia; Burma; Ceylon; Faroe Islands; Iceland; India; Iraq; New Zealand; Pakistan; Persian Gulf Sheikdoms; South Africa; United Kingdom and its Colonies

Bilateral Countries
Argentina; Austria; Belgian Monetary Area; Brazil; Bulgaria; Canada and Newfoundland; China; Denmark; France and French Monetary Area; Germany; Greece; Hungary; Japan; Lebanon; Palestine; Paraguay; Peru; Portuguese Monetary Area; Roumania; Switzerland; Syria; Tangier; Transjordan; Turkey; Uruguay; Vatican City; Yugoslavia

Note: Arrow indicates direction of transfer without the need for individual approval by the UK exchange control authorities, between different categories of sterling accounts. In principle, internal transfer within groups was permitted without British approval, except for Bilateral Countries. All other transfers required separate approval.

While it would not result in dollar earnings, an increase in sterling transferability would develop trade on a more multilateral basis and expand not only supply sources but also export markets. Payment in sterling would entice Transferable Account Countries to purchase Japanese goods which 'they would otherwise have to forego because of dollar shortage'.\(^{19}\) Elimination of the dollar convertibility clause would promote relaxation of British import licensing of Japanese goods because the United Kingdom would no longer have to worry about the danger of dollar liability in Japanese trade. The extensive use of transferable sterling would also raise the value of sterling as an international reserve currency. Pickelle observed:

> In the event it is decided that the Japanese yen will be backed in part by sterling it would be desirable to secure the necessary amount of sterling through the export sale of Japanese goods and to accumulate such sterling in an orderly fashion and over a relatively long period of time.\(^{20}\)

Despite the obvious merits of this proposal, SCAP did not raise the issue of termination of dollar convertibility or of Japan's inclusion in Transferable Account Countries at the subsequent 1950/51 sterling trade negotiations. In examining the effects of these proposals on Japanese trade, A.J. Greco, Sterling Area Trade Coordinator representing SCAP, pointed out the possibility of excessive sterling accumulation resulting from deletion of the dollar convertibility clause on the grounds that the United Kingdom was likely to prefer to sell to hard currency countries some goods which otherwise would have been sold to Japan.\(^{21}\) Freed from the risk of dollar liability, the British authority would no longer feel pressed to export commodities in short supply to Japan to match SCAP's increased purchases. It was unclear whether sterling transferability would lead to increases in the overall volume of Japanese trade, because Japan had already succeeded in promoting trade with some Transferable Account Countries through bilateral trade arrangements.\(^{22}\)

SCAP had another objective in its attempt to increase trade through transferable sterling. Greco ruled that the existing Sterling Trade Arrangement enabled Japan to obtain

---

19 Greco to Krossner, 18 April 1950, *op.cit.*
20 Pickelle to Marquat, 6 March 1950, *op.cit.*
21 Greco to Krossner, 18 April 1950, *op.cit.*
22 By April 1950, Japan had concluded trade arrangements based on dollar open account or cash payments with five Transferable Account Countries, namely Chile, the Dutch Monetary Area, Finland, Siam and Sweden. Krossner to Greco, 'Transferable Sterling', 17 April 1950, SCAP, 6680(21), ESS(C)05187.
its required commodities from the sterling non-participants.\textsuperscript{23} As discussed in Chapter 6, at the 1950/51 sterling trade negotiations SCAP officials adamantly persisted in the position that the Overall Payments Agreement entitled SCAP to use freely any sterling earned from the participants to make payments within the whole sterling area, regardless of the provisions of the Sterling Trade Arrangement, which obligated each party to reach mutual agreement in the case of such diversion of trade.\textsuperscript{24} Such an interpretation would enable SCAP to expand Japan's sterling trade — without asking Britain to give Japan Transferable Account status — simply by using the sterling surplus earned from the participants for purchases of important commodities from the non-participants. W.J. Krosser, Chief of the Trade Arrangements Branch of the Foreign Trade and Commerce Division, who received this advice directly from Greco, was the most outspoken of the SCAP officials insisting on sterling transferability in the 1950/51 negotiations.

SCAP's insistence on sterling transferability did not detract from its overall goal of expanding Japan's overall sterling trade. In fact, SCAP showed its determination to increase the size of the 1950/51 Trade Plan. For example, the Textile Division ignored the opposition from MITI to the allocation of cotton textiles to exports to the sterling participants at the expense of domestic consumption.\textsuperscript{25}

Just before the opening of the sterling payments negotiations in 1951, Krossner visited Washington, where he had discussions with US State Department officials. They described the main objective of a new sterling payments agreement as the expansion of Japanese trade with the sterling area. On the import side, the problem was recognised as 'one of maximizing procurement of critically needed raw materials', while on the export side, as 'one of maximizing Japan's exports to the Sterling Area by consolidating her present position in these markets and developing these markets for Japanese sundry goods'.

\textsuperscript{23} Greco to Krossner, 18 April 1950, \textit{op.cit.}

\textsuperscript{24} Japanese officials regarded SCAP's interpretation as 'arbitrary', because SCAP overlooked the principle that transactions should be subject to the regulations of the Trade Plan encompassing the whole sterling area and each country's exchange control, even if free transfer within the sterling area was stipulated by the Overall Payments Agreement. What SCAP requested was not 'transfer of accounts' but 'diversion of purchasing power'. Since 'diversion of purchasing power' meant revision of the Trade Plan, it should be subject to mutual agreement. Gaimusho Seimukyoku Keizaika [Economic Affairs Division], 'Nihon no Sutaringu Kanjo no Furiki Kanosei oyobi Boeki Torikime Dai-1-ko(g) no Kaishaku ni tsuite' [Transferability of Japan's sterling account and the interpretation of paragraph 1-g of the Sterling Trade Arrangement], 30 May 1950, DAO, B'0.0.2.0.

\textsuperscript{25} Seimukyoku Keizaika, 'Sutaring Chiiki Tsusho Kaidan: Yushutsu Keikaku' [Sterling area trade negotiations: export programs], 12 June 1950, DAO, \textit{ibid.}
The discussions further focused on the need for the 'avoidance of present and possible future restrictions' by the British foreign exchange control authorities which 'might have the effect of reducing the potential volume of trade between Japan and the Sterling Area countries'.

Although reference was not made to deletion of the dollar convertibility clause, Krossner's discussions with State Department officials emphasised the significance of the sterling area as a potential export market for Japan and the need to moderate Britain's restrictive import licensing. No concern was expressed about the possibility of an excessive accumulation of sterling balance. These factors suggest that SCAP and US Administration officials would not object to termination of dollar convertibility if this would encourage the UK exchange control authorities to change Japan's status to a soft currency source. As a hard currency source, Japan had been subject to tight import licensing on the grounds of possible dollar liability.

Thus, as SCAP came to lay more emphasis on the significance of the sterling area with respect to raw materials supply and the marketing of manufactured goods, its resistance to moderating the dollar convertibility clause subsided. On the eve of the 1951 sterling payments negotiations, SCAP and Washington worked out the main negotiation strategy for the Japanese government. While it could accept an increase in the amount of inconvertible working capital, this should be in return for such concessions from the United Kingdom as removal of restrictions on transferability, extensive use of Japan's sterling funds in non-participant trade and further extension of sterling credit facilities, which would permit expansion of Japan's sterling trade. The dollar convertibility clause was thus no longer a measure to control Japan's scarce foreign exchange but a bargaining tool to expand its sterling trade. The occupation authority was also determined to hand over to the Japanese government the right to make its own independent decisions over the future of Japan's sterling trade in the forthcoming payments negotiations. Now it is necessary to trace the Japanese approach to dollar convertibility and sterling trade in order to clarify Japan's post-independence trade strategy.

26 Krossner to Pickelle, 'Sterling Financial Negotiations', 22 May 1951, SCAP, 6729(22), ESS(A)05204.
27 Radiogram from DA to SCAP, no.DA92078, 24 May 1951, SCAP, 6718(15), ESS(B)07095.
THE JAPANESE GOVERNMENT'S APPROACH TO THE DOLLAR CONVERTIBILITY CLAUSE

SCAP first admitted the Japanese to negotiations at the Sterling Area Trade Review Conference in January 1950, in preparation for the day when it would take over from SCAP the power to make decisions on sterling trade. A memorandum by an official of the MFA, drafted in late April 1950, gave careful consideration to the problem of the dollar convertibility clause, recognising its restrictive effects. In order to minimise control on trade 'as much as possible', it recommended the relaxation of the convertibility clause. It is noteworthy that, while presenting several options, the memorandum considered the possibility of abolishing the whole clause. This would be preferable if it proved that Japan's dependence on the sterling area was such that it did not have a large surplus with the area, or if any surplus which did exist could be used to trade with other Transferable Account countries. 28 This indicates that the Japanese government wanted to establish closer trade links with the sterling area in the post-occupation period.

The subsequent inter-ministerial meeting in early May found it 'possible' to remove the convertibility clause in the light of the need to moderate the restrictive British import licensing policy directed at Japanese goods. However, the meeting concluded that there was little possibility of removing the clause, taking into account 'various restrictions under the occupation, US aid to Japan and the backward countries development plan', and opted instead for a 'relaxation' of convertibility through an increase in the sum of working capital from £10 million to £15 or 20 million. 29

With regard to the 'various restrictions under the occupation', Japanese government officials were concerned about the 'unfavourable conditions of a non-economic nature under the existing occupation controls' which had resulted in restrictions on Japan's sterling trade. Its occupied status did not allow Japan to enter into a formal trade agreement to giving it non-discriminatory and most-favoured-nation treatment in trade with foreign countries. Many of these countries were in any case alarmed at the resurgence of the

28 Arata Sugihara, Keizaika, Seimukyoku, 'Nichi-Ei Shiharai Torikime no Kokan Kanosei Joko Kanwa no Mondai' [Relaxation of the convertibility clause of the Overall Payments Agreement], undated (27 April 1950?), DAO, B’0.0.2.0.
Japanese export drive of the 1930s. In fact, the sterling participants flatly refused to discuss SCAP’s draft formal Sterling Trade Agreement in the following 1950/51 sterling trade negotiations. The other restriction mentioned at the inter-ministerial meeting concerned ‘US aid to Japan’. This referred to Japan’s need to earn dollars to finance imports of raw materials and foodstuffs which were available only from dollar sources, in preparation for the decreasing US appropriated funds.\(^{30}\) The Japanese government was aware of the need to maintain control over Japan’s exports to the sterling area in order to maximise dollar earnings from export sales to the dollar area.

These factors did not discourage Japanese officials from eagerly seeking sterling trade. In the same inter-ministerial meeting, MITI proposed an ‘enormous’ Trade Plan with the sterling participants in which annual purchases for 1950/51 amounted to as much as £140 million. This figure was still larger by £4 million than that of the revised Trade Plan of April 1951; which was inflated from the original figure of £92 million because of the increase in commodity prices triggered by the Korean War Boom. In presenting the proposed Trade Plan, it was stated that ‘the Plan was drafted by MITI and the Economic Stabilisation Board based on a policy of diverting imports into the sterling area to the fullest possible extent and thereby strengthening Japan’s dependence on the area’(my emphasis).\(^{31}\) Japanese officials even considered a proposal to extend sterling credits by depositing Japanese yen in the Bank of England as collateral. Although they predicted strong opposition from both the United States and Britain, officials saw that this was an ‘ideal’ solution in that it would overcome the difficulties in obtaining sterling credit facilities while helping to strengthen the status of the Japanese yen as an international currency.\(^{32}\) This proposal shows that the Japanese government had little hesitation in strengthening the link between the Japanese yen and the pound sterling.

Thus, before the outbreak of the Korean War, there was little doubt among Japanese officials about the potential of the sterling area as a trade partner. The Japanese

\(^{30}\) Sugihara, ‘Nichi-Ei Shiharai Torikime no Kokan Kanosei Joko Kanwa no Mondai’, op.cit. A handwritten comment on this document reads, ‘what must be purchased from the dollar area will amount to $200–300 million, oil, cotton, foodstuffs’.

\(^{31}\) ‘Dai-2-kai Nichi-Ei Tsusho Kaidan Jumbi Renrakukai Hokoku’, 2 May 1950, op.cit. Japanese officials were well aware of the problem of the feasibility of the proposal, taking into account the possible shortage of purchasing power due to the delay in relaxation of import licensing and the still ambiguous British policy on Japan’s sterling trade.

\(^{32}\) Ibid.
government was concerned more about the import restrictions adopted by the sterling area than the strict controls placed on sterling balance through the dollar convertibility clause. A handwritten comment by a MFA official on the prospect of Japan's sterling reads, 'we cannot hope for a big surplus'. The Japanese concern about import licensing suggests that officials expected that the United Kingdom and other sterling area countries would continue to restrict imports from Japan for political reasons to protect domestic industries so that an excessive sterling surplus might not accumulate even if the dollar convertibility clause was deleted, as long as Japan continued to utilise its sterling surplus for increased commodity procurement from the sterling area.

The positive approach of Japanese officials towards expansion of sterling trade prevailed throughout 1950. In his article commenting on the 1950/51 Sterling Trade Arrangement concluded in November 1950, an official of the Foreign Exchange Control Board (FECB) proposed the termination of dollar convertibility to preclude difficulties in expansion of sterling trade. The official argued that the termination would lead the British exchange control authority to regard Japan as a Transferable Account country, promoting Japan's trade in sterling with countries such as the Sudan, Egypt, Chile and Siam. Since there was little prospect of large trade surpluses accruing with these countries, Japan was unlikely to build up an excess of sterling. By the start of the sterling payments negotiations in May 1951, however, this lack of concern about sterling accumulation had disappeared, and the Japanese government attempted to shift its trade strategy away from the sterling area.

THE US-JAPAN ECONOMIC COOPERATION PROGRAM

On the eve of the negotiations for a new Sterling Payments Agreement in May 1951, the Japanese Prime Minister, Shigeru Yoshida, expressed his government's intentions in a memorandum to Marquat. The Japanese government wanted a dollar convertibility clause similar to the existing one, while being prepared to increase the amount of inconvertible working capital from 17 million pounds, as at present, to some higher reasonable figure.

---

34 Mamoru Niihara (Trade Division, Secretariat, FECB), 'Nichi-Ei Shin Boeki Kyotei ni tsuite' [On the new Sterling Trade Agreement], Gaikoku Kawase, no.17, 1 January 1951, pp.16-17.
This proposal was closely in line with the views expressed by government officials twelve months before.

Yoshida’s memorandum explored in detail several alternative approaches to the sterling payments negotiations. The option to accept the likely British proposal to maintain Japan’s status as a Bilateral Account country with deletion of the dollar convertibility clause was dismissed on the grounds that Japan would probably accumulate an excessive and unusable sterling balance. To avoid such an accumulation, the Japanese government would be compelled to strengthen controls on exports to the sterling area. The option to include Japan among the Transferable Account Countries with the dollar clause deleted was also undesirable ‘unless ample safeguard could be visualized against possible dangers of unduly (sic) large sterling accumulation’. It was concluded that Japan should not abolish the dollar convertibility provision but increase the amount of inconvertible working capital so that the sterling area countries could relax import licensing. This shows that, although aware of the restrictive effects of the existing Overall Payments Agreement particularly on ‘exports of such desirable items as machinery and sundries’ for which the sterling area had been a good customer in the prewar period, the Japanese government was hesitant to open the floodgates to purchases of Japanese goods by the sterling area.36

Anticipating that the United Kingdom might reject the Japanese request for retention of the dollar convertibility clause, Yoshida included a more drastic option in his memorandum: to ‘seek to negotiate an agreement which would place Japan on an “American Account” status’.37 For Japan to have American Account status and be classified as a dollar area country in the British import licensing system would have serious implications for sterling trade. Once Japan was admitted as an American Account country, the Bank of England would have to guarantee to exchange Japan’s sterling funds for dollars at any time. Japan’s sterling balance would also become freely transferable for payments to the countries of the American Account group, Transferable Account group, Other Countries group and the sterling area. Taking an extreme example, Japan could pay in sterling for purchases from the United States.

35 Shigeru Yoshida, Japanese Prime Minister to Marquat, 4 May 1951, DAO, B.0.0.2.0.
36 Ibid.
37 Ibid.
On the downside, it was obvious that the sterling area would in response impose extremely tight import licensing on Japanese exports for fear of a dollar liability. It was doubtful that Japanese goods were as yet competitive enough to have penetrated successfully tough American markets. On the import side, Japan would be asked for dollar payments for the procurement from the sterling area. Another concern was that the sterling area countries would not increase their imports of Japanese goods sufficiently to cover Japanese purchases of commodities which were not available from the dollar area such as wool, rubber, zinc, bauxite and manganese. As a consequence, Japan could end up with a large dollar deficit both with the dollar and the sterling areas. 38

Since it should have been easy to predict these contractionary effects on Japanese trade, why did the Japanese government raise the proposal for American Account status? Yoshida’s memorandum pointed out several merits of the proposal. Firstly, American Account status was ‘sound’ in view of the ‘basic concept of liberalizing the flow of world trade’. Secondly, the Japanese industry needed to advance its rationalisation programs to obtain a competitive edge in dollar markets. The memorandum admitted that ‘Japan’s trade structure, if it remains in its present form, will make a large dollar shortage inevitable’. In view of ‘the fact that we should not depend indefinitely upon U.S. aid ... the reason for adoption of this plan becomes all the more cogent’. American Account status would force Japanese industries to concentrate their exports on tough dollar markets.

The Japanese government did not overlook the short-term disadvantages of American Account status culminating in an adverse balance of $100 million in payments for the following year. It also admitted that some industrial sectors might suffer if exports to the sterling area declined. 39 This would seem to be too large a risk for a recovering economy to run. In making this proposal, the Japanese government was daring to reverse SCAP’s trade policy of developing networks of trade arrangements with non-dollar areas to sustain Japanese trade without dependence on US aid. Although there is no direct evidence, it is likely that this proposal originated with the idea of the Foreign Exchange Control Board, especially its Chairman, Nobutane Kiuchi. As will be explained later, Kiuchi was an

39 Yoshida to Marquat, 4 May 1951, op.cit.
outspoken advocate of exchange controls to keep the national currency 'as hard as possible'. Perhaps Prime Minister Yoshida was swayed by the need to pursue a hard currency strategy, consistent with the Dodge Line. Even so, the risk involved in this proposal was too great to take. In view of the fact that obtaining American Account status had not been considered in the previous inter-ministerial discussions, some special factor to support this option must have emerged in mid 1950.

At this stage the Japanese were optimistic about the prospects for dollar earnings. Yoshida's memorandum pointed out several promising factors to offset estimated dollar deficits, such as dollar receipts from the Korean War special procurement, increasing US overseas spendings and '[L]oans or investments, both government and private, from the United States for the development of Japan's production capacity'. The memorandum stated further that Japan's participation in the Southeast Asia development plans advocated by the US Economic Cooperation Administration would invite a considerable increase in Japan's dollar receipts. In 1951 Japanese government and business circles held high hopes for the US-Japan Economic Cooperation Program, under which US dollar aid to Southeast Asia was to be used to purchase Japanese industrial goods. Japan would have to reserve its supply capacity of industrial goods to be mobilised for the US aid program, even if this meant curtailing export shares to the sterling area. The significance of this was such that the Japanese government asserted that '[T]o increase exports to the Sterling Area on a large scale before Japan's production shows a marked increase would be detrimental in the interest of economic co-operation with the U.S.A.' \(^{40}\) The prospect of securing an abundant dollar supply through US aid to Southeast Asia was the key factor pushing Japan towards closer links with the dollar area, even at the risk of reduced sterling trade.

As discussed in Chapter 2, SCAP's Programs and Statistics Division led by Kenneth Morrow, campaigned for the US-Japan Economic Cooperation Program from late 1950. Washington had also worked out a plan to link Japanese industrial capacity with the economic development of Southeast Asia. Its dual objectives were to forestall Communist infiltration into the region and to obtain alternative export markets for Japan, whose traditional trade with China had been closed down. As pointed out in Chapter 6, SCAP duly emphasised in the 1950–51 sterling trade negotiations its right to use sterling earnings

\(^{40}\) Ibid.
from the participants for procurement from the non-participants, particularly in Southeast and South Asia. But Morrow’s plan went further in proposing to mobilise a large portion of Japan’s industrial capacity for the US rearmament program in East Asia in preparation for a Third World War.\footnote{Ikuhiko Hata, *Amerika no Tai-Nichi Senryo Seisaku* [US occupation policy for Japan], Okurasho Zaiseishishitsu, ed., *Showa Zaiseishi: Shusen kara Kowa made*, vol.3, Toyo Keizai Shimposha, 1976, pp.500-504.}

Morrow’s initiative stimulated high expectations in Japanese business circles of an abundant supply of dollars to be obtained either directly, through US investment and military procurement in Japan, or indirectly, through a Marshall Plan type of US aid to Southeast Asian countries, which would use these dollars to procure capital goods from Japan. Although neither the US Administration nor SCAP had announced anything definite, the Federation of Economic Organizations (Keidanren) prematurely established a body in preparation for the implementation of the Economic Cooperation Program with the United States.

Yoshida’s memorandum to Marquat on the Japanese stance toward the forthcoming sterling payments negotiations was based on these premature expectations and an optimistic view of Japan’s future dollar position. The proposal for Japan to be categorised as an American Account country could not stand without an artificial injection of extra dollars through the US rearmament program. The plan thus totally contradicted the strategy put forward under the Dodge Line for achieving Japan’s economic self-reliance, based on trade promotion on a more multilateral basis through normal commercial channels with non-dollar areas, by introducing flexibility in the implementation of bilateral trade and payments agreements. Their readiness to incur even the risk of losing large portions of Japan’s sterling and other non-dollar trade indicated that the Japanese expected a recurrence of the windfall dollar profits they had received during the Korean War Boom.

Japan’s enthusiasm met with a cool response from Washington. On his return from Washington, Marquat announced the broad outline of the US-Japan Economic Cooperation Program on 16 May. No specific US investment and/or procurement plan was revealed. Instead, Marquat stressed that Japan needed to make its own efforts to secure raw materials and foodstuffs and to develop export opportunities on a commercial basis.\footnote{Arisawa and Inaba, 1966, p.145.} In a radiogram
to SCAP dated 24 May, Washington also ruled out Japan’s proposed stance towards 
sterling trade as explained in Yoshida’s memorandum. While looking to Japan as a source 
of supply to meet military and other requirements, Washington had yet to make a firm 
commitment on the Economic Cooperation Program. SCAP was told that the Japanese 
government should discount estimates of the US aid program to Southeast Asia or US 
investments in Japan, in working out its strategy for the sterling payments negotiations.43 
Thus, the Japanese government had to enter the negotiations for a new Sterling Payments 
Agreement with Britain without a definite assurance of financial support from the United 
States. This virtually ended any hope it had of concentrating on dollar-based trade, leaving 
it no option but to maintain its sterling trade networks.

NEGOTIATIONS OVER PREVENTION OF A STERLING ACCUMULATION

Negotiations for a new Sterling Payments Agreement began in Tokyo on 24 May between 
Ryuji Takeuchi, International Trade Administrator, MITI, and H.H. Thomas, Financial 
Adviser, UKLM. In contrast with the previous trade negotiations, only British delegates 
represented the sterling area. The two chief negotiators, Thomas and J.B. Loynes, 
Assistant Cashier of the Bank of England, regarded the negotiations as purely a financial 
matter. The Australian Commercial Counsellor, H.C. Menzies, shared serious concern with 
the Commercial Minister of the UKLM, N.S. Roberts, about this ‘narrow outlook’, which 
might affect the commercial interests of the sterling area countries. But Thomas and 
Loynes had ruled that ‘such mundane matters as trade should not intrude’ into the payments 
negotiations.44 On the other hand, as Menzies predicted, the Japanese delegates, headed by 
a MITI official, were determined to have likely developments in Japan’s sterling trade as a 
result of any new financial settlement taken into account. They requested ‘specific and firm 
assurances’ to forestall unduly large accumulation of sterling balance resulted from deletion 
of the dollar convertibility clause.45

43 Radiogram from DA to SCAP, no.DA92078, 24 May 1951, SCAP, 6718(15), ESS(B)07095. Yoshida’s 
memorandum was transmitted to Washington on 16 May. Radiogram from SCAP to DA, 16 May 1951, 
ibid.

44 Menzies to Canberra, 24 May 1951, AA, A606, R40/1/105.

45 Sterling Financial Conference, ‘Statement of Mr. R. Takeuchi, International Trade Administrator, 
Ministry of International Trade and Industry’, 24 May 1951, DAO, B’0.0.2.0.
From the outset, however, the British delegates asserted that financial facilities were ‘not merely the oil which lubricates the course of trade’ but also ‘a force which can make or mar a full development of the international exchange of goods and services’. Thomas lost no time in pointing out the restrictive effects on trade of the dollar convertibility clause, the meticulous task of negotiating a trade arrangement each year and Japan’s sterling shortage due to its heavy seasonal purchases. He eagerly proposed deletion of the dollar convertibility clause.46

Early on in the negotiations, the British delegates were evasive in giving any assurance about excessive sterling accumulation with Thomas simply stating that such a situation was ‘not our desire’. Instead, Thomas pointed out to Japan Britain’s readiness to permit the use of Japan’s sterling funds in transactions with third countries on an administrative basis, that is, subject to permission by the British exchange control authorities on each occasion. This would extend the range of uses for Japan’s sterling funds to include, for example, open account settlements, thus dispelling the possibility of excessive accumulation.47 The Japanese expressed strong doubts about whether a third country would readily accept settlement in sterling when Japan had previously paid dollars.48

Removal of the dollar convertibility clause might also divert sterling commodities into more attractive dollar markets, since sterling suppliers would be freed from the necessity to make up for trade deficits with Japan through their export sales. In response to Japanese concerns about the resultant limited supply from the sterling area, Thomas refused to guarantee to monitor the export policies of other sterling area countries on the grounds that they were not under British control.49

Asked what would be done if unfavourable circumstances arose, Thomas simply answered that consultations could take place if excessive sterling accumulation seemed likely.50 Takeuchi was not satisfied with this, anticipating that accumulation would continue while the United Kingdom held prolonged talks with other sterling area countries.

47 Ibid.
48 ‘Statement of Mr. R. Takeuchi’, 28 May 1951, ibid.
50 ‘Minutes of the Third Meeting’, 29 May 1951, ibid.
over the measures to be adopted to counter it.\textsuperscript{51} When the Japanese requested an estimation of the likely accumulation, the British delegates declined to respond. The new financial agreement was, they said, just an 'experiment' and 'it was not possible to forecast results, or to guarantee that it would take a certain direction'.\textsuperscript{52}

Faced with Britain's uncooperative stance, Takeuchi clarified the Japanese position in his statement on 14 June:

... it is essential for Japan to protect and promote dollar exports; especially is that so when we consider that we should not continue to depend upon U.S. aid. On a commodity wise basis also, it is necessary to buy in dollars those commodities such as raw cotton, food, iron ore, coking coal, phosphate rock, pulp, crude oil, etc., which we cannot depend upon to obtain from the sterling area ... The problem for Japan is how to apportion her limited export capacity in the various directions to cover her imports. Apart from a case where Japan's production capacity and hence her capacity to export, increase greatly at some future date, it would not be very desirable for Japan, for the time being at least, to permit her exports to be directed to the sterling area to a degree which would be out of promotion to necessary imports. Such a situation will mean that it would invite on the one hand a dollar shortage, while it would give rise to sterling accumulation or an unavoidable import of non-essentials on the other.\textsuperscript{53}

This position to give a lower priority to sterling than to dollar trade was similar to that expressed by Marquat in July 1949, as previously mentioned. Since that time, decreasing US aid had led SCAP to divert Japanese trade from dollar to sterling and other non-dollar channels. In mid 1951, however, Japanese officials were stressing the need to maintain exports to the dollar area in preparation for the termination of US appropriated funds. Takeuchi's statement revealed that there prevailed among Japanese government circles both a strong sense of dependence for postwar Japan's trade on the United States and pessimism about developing Japan's commercial networks on a more multilateral basis. As pointed out in Chapter 2, the closure of traditional Chinese trade due to the Cold War in Asia created such pessimism about the future of Japan's postwar trade that some leftist intellectuals even advocated concentrating on the development of domestic resources as an alternative to promoting foreign trade. This pessimism created excessive expectation within Japanese government and business circles for the US-Japan Economic Cooperation

\textsuperscript{51} 'Statement of Mr. R. Takeuchi', 1 June 1951, \textit{ibid}.

\textsuperscript{52} 'Minutes of the Fifth Meeting', 5 June 1951, \textit{ibid}.

\textsuperscript{53} 'Statement of Mr. R. Takeuchi', 14 June 1951, \textit{ibid}.
Program. In mid 1951, strong aspirations for extra dollar supplies from US ‘coordinated aid’ to Southeast Asia still lingered, despite the fact that Washington had so far made no definite move in this direction.

Thomas quickly denounced the Japanese position as ‘unjustifiably pessimistic’ in his letter to Takeuchi two days later. He further revealed that he was ‘under categorical instructions from His Majesty’s Government not to offer a “dollar clause”’. In response to Thomas’s unequivocal stance, Takeuchi raised his suspicion that the British delegates were refusing to calculate the likely figures of Japan’s sterling surplus, because they actually envisaged an accumulation of an excessively large amount. He then suggested that £40–50 million was, for the time being, the maximum sterling balance which Japan could hold.

Takeuchi’s reply broke the deadlock, and the negotiators began to work out a definition of ‘excessive accumulation’. In the meeting of 21 June, Thomas admitted Japan’s right to define the amount it considered excessive. The United Kingdom was prepared to take steps in six months to reduce Japan’s surplus ‘if Japan’s reasonable limits showed signs of being surpassed chronically’. Thomas further suggested that Japan would be able to dispense with the dollar convertibility clause if Britain gave Japan a ‘reasonable assurance’ that it would attempt to keep Japan’s sterling balance within the amount which the Japanese considered appropriate.

Considerable progress was made in the subsequent ninth meeting of 5 July, in which the Japanese showed preparedness to ‘shelve’ the question of the dollar convertibility clause, on condition that the United Kingdom provide satisfactory assurances with respect to sterling accumulation. The British delegates duly conceded in their draft Sterling Payments Agreement that Britain would not ‘restrict the availability’ of Japan’s sterling funds for transfer to payments to the non-sterling area, as agreed between the Bank of England and the Japanese Foreign Exchange Control Board.

Pending instructions from London, hope emerged of reaching an agreement over the ‘reasonable assurance’ against excessive accumulation in late July. Although the British had

54 Thomas to Takeuchi, 16 June 1951, ibid.
55 Takeuchi to Thomas, 21 June 1951, ibid.
57 ‘Minutes of the Ninth Meeting’, 5 July 1951, ibid.
refused to make a commitment to prevent accumulation of sterling in excess of a certain specified amount as requested by the Japanese government, it submitted on 20 July a draft exchange of letters which confirmed both parties' willingness to keep Japan's sterling balance 'within reasonable limits' and to take all reasonable measures to prevent 'any chronic imbalance'. Takeuchi thought that this draft 'would, in general, be acceptable'.

The British further agreed that Japanese delegates should state in the final minutes 'their assessment of the standard limit of their sterling holdings at £50 million' and 'their expectation that the U.K. would take necessary steps to keep the balance within such limits'. With regard to administrative transferability, the United Kingdom made another concession by showing its preparedness to approve any transfer of sterling to Transferable Account Countries and Other Countries.

These concessions seem to have been made as recompense for Britain's ambiguous assurance concerning Japan's right to dispose freely of its sterling balance upon the termination of the new Payments Agreement. Britain guaranteed free disposal only 'in normal circumstances' as long as Japan's sterling trade continued on a sterling basis. If the British interpreted Japan's excessive accumulation of sterling balance as not taking place 'in normal circumstances', Japan would be bound against conversion of its sterling funds into dollars, even after it terminated the new payments agreement to restore Japan's right to convert. Takeuchi did not conceal his disappointment, saying that such a reply 'knocked away one of the "pillars" for deleting the dollar clause'. One of the Japanese negotiators, Jiro Shirasu, Adviser to the ESB, informed the British of the considerable difficulties he would have in persuading cabinet ministers without definite assurance on this point. Since Shirasu had close personal relations with Prime Minister Yoshida, the British could be sure that this question of free disposal of sterling balance at the termination date would have serious political repercussions.

Placing confidence in the British assurances and recognising Britain's difficulty in making commitments binding on the whole sterling area, the Japanese delegates eventually

59 Thomas to Hale, Director of Trade and Services, ESS, Draft memorandum, 20 July 1951, *ibid.*
60 Sterling Financial Conference, 'Minutes of the Eleventh Meeting', 20 July 1951, *ibid.*
61 'Minutes of the Twelfth Meeting', 26 July 1951, *ibid.*
62 Thomas to Hale, 'Transfer of Sterling between Japan and Countries outside the Scheduled Territories', Draft memorandum, 26 July 1951, *ibid.*
63 'Minutes of the Eleventh Meeting', 20 July 1951, *op. cit.*
announced their intention ‘not to pursue’ the dollar convertibility clause any further at the twelfth meeting of 26 July. Although the terms of Britain's assurances were vague, it seemed that this was as far as London would go. Japanese government officials accepted the British terms rather grudgingly. They even considered the possibility of abandoning the negotiations and joining the dollar area, but ruled out this option in view of the danger that the United Kingdom might ‘block’ free disposal of Japan's existing sterling balance in such a case. Since the issue of excessive sterling accumulation was the most important consideration in Japan agreeing to shelve the dollar convertibility clause, it is remarkable that Japan failed to gain other important concessions such as free disposal of sterling balance at the termination date, extension of credit facilities, and relaxation of import and export controls. 64 However, Britain had agreed to confine the terms of the Agreement to one year as well as to Japan's right to terminate the Agreement on three months notice in advance, and the Japanese government judged that excessive accumulation was unlikely to emerge within the next twelve months. If it did occur, Japan would be able to overcome the predicament by announcing its intention to abrogate the new Sterling Payments Agreement and to claim dollar payment for Japanese exports. 65 Thus, both sides had reached agreement in principle on this most important issue by the end of July. However, the negotiations stalled for another month over a new problem.

THE HONG KONG QUESTION AND POLITICAL SETTLEMENT OF THE NEGOTIATIONS

On 20 July the British proposed inclusion of Hong Kong in the new Sterling Payments Agreement, though it was ‘prepared to hear what the Japanese had to say’. In response, the Japanese proposed to discuss this issue in the Drafting Committee, which would begin its work on 30 July. 66 The Japanese government raised strong opposition to Hong Kong's inclusion. Firstly, there was the serious danger of an even greater accumulation of unusable sterling surplus, because the postwar trade pattern indicated consistent overpurchases by Hong Kong from Japan. It was for this reason that Hong Kong had been excluded from the

64 Gaimusho Kokusai Keizaikyoku [International Economic Affairs Bureau], ‘Nichi-Ei Shiharai Kyotei no Mondaiten’ [Problems in the Sterling Payments Agreement], 23 July 1951, DAO, B'0.0.2.0.
65 Radiogram from SCAP to DA, no.C-67972, 30 July 1951, SCAP, 6417(22), ESS(E)00968.
66 ‘Minutes of the Twelfth Meeting’, 26 July 1951, op.cit.
sterling cash settlement under the Overall Payments Agreement. SCAP had been alarmed at the entrepot trade within the sterling area centred on Singapore and Aden, which purchased essential Japanese goods in sterling and earned dollars elsewhere by reexporting them. So the sterling entrepot meant the loss of opportunity for dollar earnings for Japan. Secondly, Hong Kong itself had expressed its desire to maintain trade with Japan under the existing dollar open account arrangement. Thirdly, Hong Kong’s inclusion would put its entrepot trade under British control, and the United Kingdom might try to restrain expansion of trade between Hong Kong and Japan.

By mid August, the Drafting Committee had reached agreement on all issues except that of Hong Kong’s status. In the meeting of 21 August, the parties clashed over this issue. In response to the Japanese request for separate treatment for Hong Kong, Thomas asserted that ‘any suggestion to exclude one of the Scheduled Territories would be in direct conflict with a fundamental principle of sterling area policy’ and it would create ‘an undesirable and indeed impossible precedent’. Faced with Britain’s flat refusal, the Japanese government proposed to defer formal discussions on this matter until after the end of the year to allow an interim period for a full investigation of trade developments under the new agreement. But Thomas asserted that ‘there would be no purpose in further discussion’ and requested adjournment to allow the Japanese cabinet to consider the proposal prior to a final decision.

Thomas’s determined rejection drove Japanese officials to petition SCAP for ‘guidance’. However, SCAP told them flatly that ‘this decision must be made by Japanese Government’. SCAP and Washington were determined not to intervene in Japan’s sterling negotiations, as the Japanese ‘should assume responsibility for final decision on sterling payments agreement and consequently feel that there is no basis for US

---

67 Since the 1949/50 Sterling Trade Arrangement, the sterling area had undertaken not to resell Japanese goods purchased in sterling for payment in dollars. Pickelle, ‘Entrepot Trade’, 9 November 1948, AA, A606, R40/1/74.
68 Hale to Chief of Staff, ‘Anglo-Japanese Financial Agreement’, 17 August 1951, SCAP, 6726(14), ESS(C)05742.
69 Radiogram from SCAP to DA, no.C-67972, 30 July 1951, SCAP, 6417(22), ESS(E)00968.
70 Sterling Financial Conference, ‘Minutes of the Thirteenth Meeting’, 21 August 1951, DAO, B’0.0.2.0.
71 Radiogram from SCAP to DA, no.C-69402, 22 August 1951, SCAP, 6417(22), ESS(E)00968.
72 Ibid.
Government's questioning arrangement Japs develop with Britain. 73 On the other hand, Japanese officials seem to have counted on SCAP's intervention to break the deadlock caused by the intractable position of the British. When Thomas conveyed the British determination to stand firm on the issue of Hong Kong's inclusion on 16 August, one of the Japanese chief negotiators, Nobutane Kiuchi, FECB Chairman, strongly challenged his counterparts:

Mr. Kiuchi stated that ... they [Japanese negotiators] desire to stand firm, insisting upon the exclusion of Hong Kong for reasons which they have stipulated in the record of previous meetings. He further stated that the Japanese negotiators would now have to refer this question to the Japanese Cabinet and that any change of position of the JG would be reported to SCAP before it was taken up in conference with the UK representatives. 74

Kiuchi's attitude suggests that he was sure that SCAP would try to persuade the UK delegates, once informed of the serious danger of added sterling accumulation. In an article written after the negotiations, Kiuchi revealed his belief that SCAP officials had opposed the deletion of the dollar convertibility clause in order to maintain sound management of Japanese foreign exchange. 75 As already discussed, SCAP had become receptive to the removal of the dollar convertibility clause by this stage, and there is no SCAP document to endorse Kiuchi's observation. It is possible, however, that some SCAP officials, especially those in charge of foreign exchange, could have held such negative views about the clause's removal. As the custodian of Japan's foreign exchange, Kiuchi would have had many opportunities to contact these SCAP officials.

SCAP's refusal to give 'guidance' meant that the Japanese government had no alternative but to accept Hong Kong's inclusion. The Ministry of Foreign Affairs seemed to feel that the Japanese case for excluding Hong Kong was not strong enough to persuade the British. 76 On 27 August, Kiuchi announced that the Japanese government would accept the Sterling Payments Agreement with Hong Kong included, and it was signed on 31 August. 77

73 Radiogram from DA to SCAP, no.DA98128, 5 August 1951, SCAP, 6417(22), ESS(E)00968.
74 R.W. H[ale], 'Memorandum for Record', Undated (17 August 1951?), ibid.
76 Kokusai Keizaikyoku, 'Nichi-Ei Shiharai Kyotei no Mondaiten', 23 July 1951, op.cit.
77 Radiogram from SCAP to DA, no.C-50008, 1 September 1951, SCAP, 6417(22), ESS(E)00968.
This was the first major agreement that the Japanese government concluded with a foreign country in the postwar period.

There was an important political factor behind the Japanese decision: the Japanese government needed to settle the sterling payments negotiations prior to the departure of high ranking Japanese government ministers and officials to the San Francisco Peace Conference, due to commence on 4 September.78 The new Sterling Payments Agreement was subject to the approval of the Japanese cabinet, which hoped to impress the Allied Powers with its ability to accommodate into the postwar international society by concluding successfully its inaugural negotiations with one of the world's major nations. Thus, Japan's acceptance of Britain's guarantee can also be interpreted as an outcome of its need for early settlement of the negotiations.

Japanese government officials were also aware of the need to conclude a Peace Treaty before they could initiate negotiations on Japan's treatment in the postwar international trade system under the GATT. Pointing to Britain's flat refusal to endorse SCAP's draft formal trade agreement, including provisions on non-discrimination and most-favoured-nation treatment, submitted to the 1950/51 sterling trade negotiations before Japan's independence, a MFA official noted that 'this case illustrates that it is impossible to improve Japan's terms of trade with the sterling area unless a Peace Treaty is concluded'.79

JAPAN'S APPROACH TO THE STERLING PAYMENTS NEGOTIATIONS

The political schedule for signing the Peace Treaty drove the reluctant Japanese government into concluding the new Sterling Payments Agreement. Whether the Japanese welcomed it or not, the Agreement was significant for the direction of Japan's postwar trade strategy. Before examining its implications for Japanese trade policy, it is worth reviewing the Japanese government's stance on the sterling payments negotiations.

Firstly, it was obvious that the most important objective of the Japanese government was prevention of excessive accumulation of sterling balance. Washington's cool response to Japan's expectation of securing an abundant dollar supply through the US-Japan

---

78 Hale, 'Sterling Financial Conference', 27 August 1951, SCAP, 6213(12), ESS(B)01874.
79 Seimukyoku Keizaika, 'Sutaringu Chiiki Tsusho Kaidan: Boeki Torikime Ambun Kento ni kansuru Zentai Kaigi' [Sterling Trade Conference: the Committee of the Whole], 31 July 1950, DAO, B'0.0.2.0.
Economic Cooperation Program, made the option of seeking American Account status unworkable. It could then have been logical for the Japanese government to claim retention of the dollar convertibility clause. From the outset of the negotiations, however, the United Kingdom demonstrated its firm determination to have the dollar convertibility clause deleted. The British position that the negotiations were solely a financial matter also influenced the Japanese stance. The Japanese government had initially appointed a MITI official, Takeuchi, as chief negotiator, reflecting its intention to discuss broad trade issues as well as sterling financial settlement. From the Seventh Meeting on 14 June, however, when the negotiations focused on a British assurance that there could be no excessive accumulation, the FECB Chairman, Kiuchi, joined the Japanese delegation. These factors forced Japanese officials to seek other ways of preventing overpurchasing of Japanese export goods and to ensuring commodity availability from sterling suppliers.

Secondly, the emphasis on financial matters and the need to prevent sterling accumulation prevented the Japanese negotiators from pursuing such trade issues as non-discrimination and most-favoured-nation treatment. In his opening statement, Takeuchi stressed Japan's intention 'to work for the promotion of trade upon the principles embodied in the General Agreement on Tariffs and Trade'.

Takeuchi also pointed out the discriminatory effects of the British preferential tariffs. Furthermore, in return for Japan's preparedness to 'shelve' the dollar convertibility clause, the Japanese demanded non-discriminatory treatment for Japanese imports in the sterling area. These Japanese requests received a flat refusal from the British as 'entirely outside the scope of a payments agreement'. After that, Japan did not again raise trade issues.

Since SCAP had regarded promotion of sterling trade as one of the most important objectives of Japan's post-independence trade strategy, it was critical of the passive approach of the Japanese negotiators towards trade issues. In his draft radiogram to Washington in mid August, Krossner reviewed the Japanese negotiation strategy:

Japanese Government has not exerted maximum efforts in its own behalf in regard to accession to GATT. Although a relevant subject during early stages of Sterling Payments negotiations and possibility of using concession to the shelving

---

80 Sterling Financial Conference, 'Statement of Mr. R. Takeuchi', 24 May 1951, ibid.
81 'Statement of Mr. R. Takeuchi', 28 May 1951, ibid.
82 'Statement of Mr. R. Takeuchi', 5 July 1951, ibid.
83 'Statement of Mr. H.H. Thomas', 10 July 1951, ibid.
of sterling dollar convertibility clause as bargaining lever to obtain commitment in principle by U.K. of early Japanese accession to GATT, the Japanese Government representative did not bring up subject at any stage of the negotiations. Deemed too late now to raise issue in the current negotiations.84

Krossner's observation seems rather harsh, given Britain's adamant refusal to discuss trade issues, but it illustrates that Japanese officials showed less determination in seeking elimination of trade barriers in sterling markets than in seeking to prevent excessive sterling accumulation. As mentioned earlier, the Japanese government recognised the difficulty in discussing with Britain such trade issues as most-favoured-nation treatment for Japan before the conclusion of the Peace Treaty. Raising this issue in the sterling payments negotiations might make it difficult to settle the Agreement before the San Francisco Peace Conference or might even affect conclusion or ratification of the Peace Treaty.

Furthermore, Japan was presenting contradictory cases when it expressed on the one hand its strong concern about excessive accumulation due to increase in exports to the sterling area, while on the other requesting measures to facilitate Japan's export trade in sterling markets. During the negotiations, the Japanese demanded export facilities such as an extension of sterling credit facilities and a relaxation of Britain's import licensing, especially for non-essential Japanese goods.85 Evading these requests, the British negotiators made an effective counter-argument that the best means for Japan of obtaining these export facilities from the sterling area would be to 'strive to accumulate a working balance' by agreeing to deletion of the dollar convertibility clause.86

The higher priority given to prevention of sterling accumulation and Kiuchi's appearance within the Japanese delegation reflected the Japanese stance towards a post-Peace Treaty trade policy. In retrospect, Kiuchi pointed out that the FECB had the 'ideology' to 'keep the Japanese currency as hard as possible' in order to 'return to the normal situation' where there was no need for exchange control. Accordingly, in working out a negotiation strategy for the Sterling Payments Agreement, the FECB insisted that

84 Radiogram from Marquatto to DA, Draft by Krossner, 17 August 1951, SCAP, 6727(3), ESS(A)05116. It is interesting to note that in the same document Krosnner observed that Japan's amendment to moderate the strict Anti-Monopoly Law might 'cast doubt on sincerity of announced adherence of Japanese Government to GATT and ITO principles'.
85 Sterling Financial Conference, 'Statement of Mr. R. Takeuchi', 28 May 1951; 'Minutes of the Fourth Meeting', 1 June 1951, DAO, B'0.0.2.0.
86 'Minutes of the Third Meeting', 29 May 1951, ibid.
Japan not be ‘enticed’ into soft-currency treatment, however much sterling exports might increase.\textsuperscript{87} This ‘ideology’ was quite in line with Japan’s initiative to seek American Account status in sterling trade. The attachment to hard currency status meant closer affiliation of Japanese trade with the dollar area. Menzies was aware of the preference for dollar earnings within Japanese domestic policy circles and identified one of the reasons for Japanese opposition to deletion of the dollar convertibility clause.

Mr. Menzies then observed that in his various talks with both Americans and Japanese industrialists, it was obvious that their ideas on the payments negotiations still seemed to be based on certain misconceptions. Their argument had been that it was useless for Japan to accumulate sterling if she was unable to buy sterling goods in return; the retention of the convertibility clause was accordingly desirable in order to ensure a flow of dollars into Japan for the purchase of necessary raw materials. Mr. Roberts (British Minister, Commercial) confirmed that this view was also held by Japanese industrialists in the Kansai [Osaka area] who thought that a retention of the dollar clause would enable them to utilise sterling balances to buy American cotton for dollars.\textsuperscript{88}

As mentioned previously, SCAP had one time adopted a more liberal approach to the question of dollar convertibility of Japan’s sterling funds, as it shifted from dollar earnings to finance Japan’s standing liabilities to expansion of trade networks with non-dollar areas as a central strategies for achieving self-reliance of the Japanese economy without US appropriated funds. On the other hand, the Japanese still held a strong sense of dependency on the United States, especially for imports of strategic raw materials and foodstuffs, and therefore saw a pressing need to earn dollars by any means. From the viewpoint of the Japanese foreign exchange control authority as well, it was also sound to prevent excessive accumulation of unusable soft currencies. These factors culminated in the Japanese government’s attachment to the dollar convertibility clause and the proposal for American Account status. In this sense, there is no denying that the sterling area was given lower priority than the dollar area as a post-independence trade partner for Japan.

Nevertheless, the political necessity to settle the sterling payments negotiations prior to the San Francisco Peace Conference forced the Japanese to accept most of the British proposals, including the deletion of the dollar convertibility clause, an ambiguous assurance.

\textsuperscript{87} Kiuchi, 15 August 1954, p.4.
\textsuperscript{88} Sterling Area Working Party, ‘Minutes of the Seventy Fifth Meeting’, 6 July 1951, AA, A606, R40/1/98.
against excessive sterling accumulation and Hong Kong’s inclusion in the Payments Agreement. Their acceptance, no matter how reluctantly, carried with it the implication that Japan’s economic self-reliance would inevitably be subject to the influence of the development of sterling trade, as the new Agreement would direct a large portion of Japanese exports to sterling markets. If Japan could have abandoned the sterling payments negotiations and obtained American Account status, the shape of post-Peace Treaty Japanese trade relations would have been quite different. Japan might have been more closely connected with the dollar area, but at the cost of a substantial reduction in the overall level of trade, a decrease in production levels, and possibly, a delay in achieving economic self-reliance.

In this respect, the Sterling Payments Agreement of 1951 was an important turning point in Japan’s postwar trade relations. Without an additional dollar supply, Japan had no alternative but to pursue economic self-reliance through a strategy of promoting trade on a commercial basis in multilateral directions without excessive dependence on the dollar area. The new Payments Agreement forced Japan to focus on developing commercial networks with the sterling area, by drastically moderating Japan’s exchange controls on sterling trade. This could be expected to stimulate active purchases of Japanese goods by the sterling area. The Japanese government was then faced with an important question: how far should it allow sterling surpluses to accumulate. So the next chapter will examine the handling by the Japanese government of the excessive accumulation of sterling surpluses after the 1951 Sterling Payments Agreement. The answer would be significant in determining the Japanese commitment to trade on a more multilateral basis.
The Japanese Handling of the Sterling Surplus, 1951–52

The new Sterling Payments Agreement minimised Japanese exchange controls on trade with the sterling area countries by the removal of the dollar convertibility clause. The Japanese government was seriously concerned about the effects of eliminating the clause, as described in the previous chapter, and in fact, Japan accumulated a huge sterling surplus from the second half of 1951 to 1952. Conversely, from 1953 to 1954 Japan faced a serious shortage of sterling, as sterling area countries tightened import licensing in order to safeguard their balance of payments. Thus, Japanese trade during the first half of the 1950s was severely affected by the volatility of Japan’s sterling balances.

These developments had profound implications for postwar Japanese trade strategy. The new Sterling Payments Agreement provided Japan with an opportunity to develop its trade in the post Peace Settlement period on a more multilateral basis. Japan’s balance of payments had been dependent on the extra dollar supply from US appropriated funds and, subsequently, special procurement during the Korean War. Although the Korean War Boom boosted Japan’s supply of dollars, it was obvious that this situation could not last for long. It was apparent that Japan needed to divert its trade from the dollar area into more multilateral channels centred on the sterling area, if it was to trade without extra dollars in circumstances of a worldwide dollar shortage.

The Sterling Payments Agreement allowed multilateral settlement of trade between Japan and the whole sterling area through the removal of the dollar convertibility clause. Freed from the risk of a dollar drain, the sterling area countries were able to import Japanese goods extensively. Japan in turn could utilise resultant sterling surpluses to increase its purchases of foodstuffs and raw materials from the sterling area. The problem was that a large portion of Japan’s exports to the sterling area, principally cotton textiles, were produced from raw materials purchased in dollars. Japan would incur the risk of a dollar loss unless it was able to curtail its dollar expenditure by purchasing a large volume of
commodities from the sterling area. But the capacity of the whole sterling area to supply commodities remained very limited.

This situation posed a dilemma for Japanese policy makers. If Japan continued to accumulate a sterling surplus without being able to obtain raw materials and foodstuffs from the sterling area, its foreign currency position would be seriously distorted. On the other hand, if Japan was to seek a rigid balance in sterling trade in order to safeguard its dollar balance, it would be forced to restrain exports to the sterling area. This might lower Japan's overall export and production levels, since the sterling area was rapidly regaining its prewar status as an important export market for Japanese goods. Restricting trade in this way was contrary to the principle of freer trade under the Bretton-Woods system, in which Japan was seeking to participate. The Sterling Payments Agreement forced Japan to choose one of two options: expansion of non-dollar trade to sustain its economic activities, or tight exchange control to maintain a sound foreign currency position. Which it chose was critical to Japan's future trade strategy.

This chapter looks at the implications of the new Sterling Payments Agreement for Japan's trade strategy after the signing of the Peace Treaty in September 1951, highlighting the Japanese handling of the sterling surplus in 1951–52. Over this problem there developed intra-governmental policy debate between those who advocated trade expansion and those who favoured currency restraint. The process whereby the former school claimed victory illustrates Japan's increasing commitment to a strategy of promoting trade through non-dollar channels. In this strategy, Australia came to be recognised as a major alternative supplier of raw materials and foodstuffs.

THE IMPLICATIONS OF THE 1951 STERLING PAYMENTS AGREEMENT

As mentioned in Chapter 7, the Japanese government rushed to conclude the new Sterling Payments Agreement on 31 August 1951 for reasons of political expediency. The Agreement was settled just prior to the departure of the Japanese delegates for the San Francisco Peace Conference. Although policy makers were concerned about the possible excessive accumulation of sterling surpluses, they seem to have conceded to the removal of the dollar convertibility clause without fully comprehending the implications for Japanese
trade in the post occupation period. Nobutane Kiuchi, then Chairman of the FECB, who vehemently criticised the new Payments Agreement, said:

... in short, it [the new Sterling Payments Agreement] meant that Japan yielded to the enticement of soft-currency status. In the negotiations, the British representative, although in a most friendly manner, stated, 'if the dollar clause is removed, Britain will treat Japan as a soft-currency source, and since soft-currency treatment means relaxation of import licensing, Japanese exports will increase'. This statement attracted some of our delegates more than anything else. To confess honestly, since I myself did not know that high prices in the sterling area were as remarkable as to be revealed later on, I could not understand the real meaning of this enticement of soft-currency.¹

This suggests that the Japanese government did not grasp the full implications of the elimination of the dollar convertibility clause on Japan’s overall trade relations. It merely expected an increase in exports to the sterling area through soft-currency treatment.

At the end of 1951, when the Japanese began to realise how serious the problem of sterling accumulation was, Bunroku Yoshino, an official of the Fourth Division of the MFA’s Economic Affairs Bureau directing trade with the sterling area, succinctly outlined the significance of the 1951 Agreement for Japan’s overall trade in an article in the *Monthly of Cotton Yarn and Textile Exports*.² Yoshino’s article observed that prewar Japanese trade deficits with the dollar area had been offset by surpluses with the sterling area. Since the 1951 Sterling Payments Agreement completely suspended convertibility of sterling into dollars, Japan would incur large dollar liabilities because exports to the sterling area were produced from raw materials purchased from the dollar area. If this situation continued, and special procurements decreased too, the Japanese economy would be in serious trouble unless sterling surpluses were exchanged for strategic raw materials which could then be used to produce export goods for the dollar area. Yoshino was realistic enough to admit that the possibility of increasing dollar earnings was extremely low. The prospects for substantially expanding purchases from the sterling area were also bleak, except in the case

¹ Nobutane Kiuchi, ‘Sogo Keizai Seisaku to Kawase Boeki Kanri Seisaku (2)’ [Overall economic policy and foreign exchange trade control policy], *Gaikoku Kawase*, no.54, 1 August 1952, p.4.
² Bunroku Yoshino, ‘Sutaringu Boeki no Shin Dankai’ [The new stage of sterling trade], *Yushutsu Menshifu Geppo*, vol.1, no.8, December 1951, pp.1-7. As Chief of the Fourth Division Yoshino was later to be responsible for drafting the 1957 Commerce Agreement with Australia.
of raw wool, rubber and bauxite. Moreover, the United Kingdom was reluctant to grant Japanese imports the benefit of soft-currency treatment or to purchase non-essential items.

Yoshino’s pragmatism led him to argue that the Japanese government should enter into extensive negotiations with the independent British Commonwealth countries, including Australia, India, New Zealand, Ceylon, Burma and Pakistan. These trade negotiations would aim at obtaining soft-currency status, which India had already conceded to Japan in October 1951. They would also focus on working out investment and development programs for Indian iron ore and coal, and long-term supply contracts for Australian wheat, barley and sugar. Yoshino’s proposal was to be reflected in actual government policy, as discussed later. Yoshino concluded his article with an assessment of implications of the 1951 Sterling Payments Agreement for Japanese trade.

Our country crossed the ‘Rubicon’ in the evolution of the postwar trade policy, when we agreed to shelving the dollar clause in the new Payments Agreement. In short, before then, we had requested every country in the world to make settlement of trade, at least formally, through payment of dollar-linked currencies. Therefore, this fundamental principle was abolished in trade with the sterling area. The effect, in either a good or a bad sense, has already been exemplified in transactions with the sterling area ...

However, as far as sterling trade is concerned, the die is already cast, and so the sole problem is how far we can proceed with the established policies. In short, established policies are to expand exports to the sterling area as much as possible to the extent that they will not hamper dollar earnings; to secure imports of raw materials by utilising thus obtained sterling funds in a most efficient way; and to prevent dollar loss by saving dollar imports. We must admit that these policies still fail to address the issue of how to implement an export drive for active dollar earning. But no doubt, these are the most effective ways for Japan at present to improve, even partially, our chronic dollar drain ...

Yoshino’s conclusion indicates that there was little alternative for Japan but to promote trade with the sterling area as a key to dollar saving, having accepted the removal of the dollar convertibility clause.

There was another force inside the Japanese government which did not support an expansion of sterling trade. When the tight import restrictions by the United Kingdom and other sterling area countries started to affect Japan’s sterling balances in mid 1952, Kiuchi defended Britain’s intensification of import licensing:

---

There will be many people who will answer that increased trade was better, when asked which is better for Japan, the past increase or the present reduction. But this is wrong. If the increase in trade is a normal one, the answer may be yes. But the problem is that the past increase in trade was based on subsidised exports sustained by unrealistic exchange rates [between yen and pound sterling]. This will entice business circles to easier trade with the sterling area, discourage their determination for rationalisation, decrease dollar exports, increase inflationary pressure and eventually make it impossible to maintain the 360 yen rate. If that is so, we should feel happy about the fact that the subsidised exports have now ceased. Another point which should be noted is that the excessive sterling accumulation would not have emerged if we had retained the dollar clause.4

Kiuchi's position represents that of the controllers of foreign exchange funds. The Japanese acceptance of the new Sterling Payments Agreement was the first setback for the foreign exchange controllers. They made several attempts to bring Japanese policy back into line by stressing the significance of maintaining a sound foreign currency position even at the cost of expansion of sterling trade. Japan's huge accumulation of sterling surplus from late 1951 to early 1952 prompted another battle between the trade promoters and the exchange controllers within the Japanese government over the measures to be adopted to cope with growing sterling reserves.

MITI AND MFA URGE AN EXPANSION OF STERLING TRADE

After conclusion of the 1951 Sterling Payments Agreement, a strong force emerged within the Japanese government to pursue active expansion of sterling trade. In mid September 1951, Nobuhiko Ushiba, then Director of MITI's International Trade Bureau, approached N.S. Roberts, the UKLM Commercial Minister. Ushiba revealed the Japanese decision to relax import licensing on sterling commodities 'in accordance with the basic principles embodied in the new Payments Agreement', submitting that Japanese purchases from the sterling area in the September–December quarter in 1951 were estimated to increase by about three times over the same quarter in the previous year.5 In talks with Roberts in late September, Ushiba outlined MITI's intention to balance Japan's trade with the whole

4 Nobutane Kiuchi, 'Sogo Keizai Seisaku to Kawase Boeki Kanri Seisaku (1)', Gaikoku Kawase, no.53, 15 July 1952, p.3.
5 Nobuhiko Ushiba, Director, International Trade Bureau, MITI, to Roberts, 13 September 1951, AA, CP553/1, 194/B/10/103. Ushiba was originally affiliated with the Ministry of Foreign Affairs. It was common for the MFA officials to have responsibility for international trade in MITI soon after its establishment in 1949.
sterling area at around £310 million for the period from July 1951 to June 1952. While this figure was larger than that of the previous year by £100 million, Ushiba was confident of Japan’s capability to supply such a large volume of exports.  

Ushiba’s attitude did not reflect the concern about excessive accumulation of sterling surpluses that had been repeatedly expressed by Japanese financial officials during the payments negotiations. All he proposed was to authorise the trade target through an exchange of letters and to review the figures in six months. The MITI estimates of Japanese imports from the sterling area in 1951/52 clearly indicated increasing Japanese interest in diverting purchases of foodstuffs and raw materials away from dollar sources. Takio Oda, Director General of International Trade, MITI, revealed that his Ministry’s policy was to maintain sterling trade ‘on as high a level as possible’. It thus seemed that Japan was prepared to tackle the problem of sterling accumulation through corresponding increases in sterling commodity procurement rather than through foreign exchange controls. The Australian Commercial Counsellor in Tokyo, H.C. Menzies, was impressed with Ushiba’s approach and wrote back to Canberra, the ‘Japanese apparently are going ahead with the implementation of the [new Payments] Arrangement and considerable freeing of trade between the Sterling Area and Japan’.

This did not stop Japanese financial officials from attempting to forestall excessive sterling accumulation. The FECB and the Ministry of Finance (MOF) took the position that Japan’s exports to the sterling area should be drastically curtailed until the surplus sterling balance was reduced. They pointed out that a large portion of sterling exports were produced from raw materials from the dollar area, thus causing a dollar drain. They were also reluctant to increase procurement from the sterling area because dearer prices for sterling commodities could increase inflationary pressure in Japan, thus weakening the competitiveness of Japanese industrial goods and counteracting the effects of rationalisation programs. 

---

7 Telegram from UKLM to FO, no.1342, 25 September 1951, AA, A1838, 479/2/10 Part 2.
8 C.C. Campbell, Director of Trade and Services, ‘JG Policy re Exports to Sterling Area’, 19 February 1952, SCAP, 6417(22), ESS(E)00968.
9 Menzies to DCA, 21 September 1951, AA, CP553/1, 194/B/10/103.
10 Campbell to Adjutant General, ‘Export of Japanese Steel to the United Kingdom’, 7 March 1952, SCAP, 6417(22), ESS(E)00968.
accumulation would be the reintroduction of dollar convertibility through cancellation of the Sterling Payments Agreement.

The United Kingdom was able to capitalise on the eagerness of the FECB and MOF officials to take drastic action to restrain excessive accumulation of sterling reserves. London said that it was not prepared to give Japan soft currency treatment in its foreign exchange controls, because Japanese financial officials might request restoration of the dollar convertibility clause if active purchasing by the sterling area led to excessive sterling accumulation in Japan. Nor did Britain intend to relax import restrictions on non-essential Japanese goods for the same reason. When the FECB Chairman Kiuchi visited London in October, the British Treasury proposed an exchange of letters to the effect that both sides were to confine imports from the other party to essential goods, with the importing party to decide which items were essential.

In October, Kiuchi signed a letter to the Treasury in which he accepted the British proposal. There is no document which throws light on Kiuchi's motives. But, judging from his known resistance to the removal of the dollar convertibility clause and his approach to foreign exchange control, it is easy to imagine that his main concern was to prevent excessive accumulation of sterling surpluses. If the sterling area countries were prepared to extend their purchases even to non-essential items, the possibility of sterling accumulation would rise. If accumulation occurred, Japan might be pressed to increase procurement from the sterling area to offset the trade imbalance, regardless of prices or the essentiality of commodities. If Japan confined its purchases to essential items, the only alternative would be for it to curtail exports to the sterling area or for the sterling area to tighten import licensing. No wonder, then, that Kiuchi preferred reduced and balanced trade to achieve sound exchange controls over a 'subsidised' expansion of exports fuelled by inflation within the sterling area and the removal of the dollar convertibility clause.

12 Cable from Crosec to Canberra, no.194, 29 September 1951, CP553/1, 194/B/10/103.
13 Modified draft letter to Kiuchi from Bank of England, 'Our Talks in London between 12–22 October regarding Draft Memorandum, UKLM (Dated 2 October) and Kiuchi (Dated 4 October)', 19 November 1951, DAO, B'0.0.2.0.
14 Cable from Crosec to Canberra, no.215, 21 November 1951, AA, CP553/1, 194/B/10/103.
When Tokyo was informed of Kiuchi’s letter at the end of October, the Japanese government was determined to modify its content. Led by the Ministry of Foreign Affairs (MFA) and MITI, the Japanese government sought to clarify its position, stating that its main concern was acquisition of soft-currency treatment in import licensing from the British foreign exchange control authority, and not the prevention of excessive sterling accumulation. In a memorandum to Roberts blaming Britain for restrictions on non-essential Japanese goods, Ushiba asserted that it was difficult to understand why Japan could not be treated as a soft-currency source despite shelving the dollar convertibility clause. Ushiba further complained about the low availability of essential commodities such as wheat, barley, rice, oil and sugar from the sterling area.\footnote{Ushiba to Roberts, 21 November 1951, DAO, B’0.0.2.0.}

The ever-increasing sterling surplus did not deter the Japanese officials. In mid November, Kiuchi in London conveyed to the British his concern that Japan’s sterling surplus had already reached £40 million and that it might reach £70 million by the end of the year.\footnote{Cable from the Australian High Commissioner’s Office in London to Canberra, no.6063, 15 November 1951, AA, CP553/1, 194/B/10/103.} Despite this, a MFA official told the UKLM that excessive accumulation could be tolerated if the surplus was created by sales of merchandise made from raw materials imported from non-dollar sources. He urged an increase in non-essential imports, explaining the Japanese intra-governmental conflict of views as follows.

As you know, there is a faction which argues that sterling should be convertible and another faction which does not care. The new Payments Agreement was duly concluded because the latter faction claimed victory. But as we are not given soft-currency treatment as expected and the trend for sterling accumulation is being intensified, this faction nowadays faces considerable difficulties. If you wish to advance the prestige of the new Payments Agreement, I want you to give due consideration to this point ...\footnote{Kokusai Keizaikyoku Dai 4 Kacho [Chief, Fourth Division, International Trade Bureau, MFA], ‘Tomasu-shi tono Kondan no Ken’ [On the meeting with Mr Thomas], 1 November 1951, DAO, B’0.0.2.0.}

In fact, late November marked an important turning point in the Japanese approach to sterling trade, triggered by an intra-government debate over Kiuchi’s letter. In an inter-Ministerial meeting of the officials of the MFA, MOF, MITI, the FECB and the ESB, Ushiba proposed that Kiuchi’s letter be endorsed by the Japanese government, with the
exception of the paragraph on confining purchases to essential items. The Director of
MOF’s Financial Bureau complained that Kiuchi’s letter included a paragraph stating that
Anglo-Japanese consultations should be held to discuss appropriate measures to be adopted
if it seemed likely that the Japanese surplus would exceed £30 million at the end of Japan’s
purchasing season. As this figure had already been surpassed, the paragraph might give the
sterling area countries the impression that the Japanese government was not concerned
about sterling accumulation. Eventually MOF agreed to Ushiba’s proposal on condition
that Britain be informed of Japan’s intention to ask for consultations in due course to
discuss measures to prevent sterling accumulation.\(^{18}\)

This was a victory for MITI and the MFA which had advocated expansion of sterling
trade and soft-currency treatment for Japan over Kiuchi, the FECB and MOF, which had
been eager to impose restraints on sterling accumulation. The paragraph on the essentiality
of imports was dropped. While MOF wished to include some paragraphs clarifying
procedures to check further accumulation, no major modification was to be made. It is
interesting that the FECB officials at the meeting stood with Ushiba in supporting
endorsement of Kiuchi’s letter with only minor modifications on essentiality. In view of the
role of the FECB as Japan’s foreign exchange control authority, they might well have sided
with MOF and called for major modifications. It is suspected that FECB officials
considered the matter to be one of bureaucratic prestige for the Board. They may have
wished to avoid modifications which would have contradicted the content of a letter written
by their own Chairman.

Kiuchi himself may have regretted the contents of his letter. Still in London, he asked
to withdraw his letter in December, but his request was refused by the British Treasury.\(^{19}\)
After his return to Tokyo, Kiuchi declined to comment on the matter to UKLM officials,
saying that he had not been informed of the endorsement of his letter with minor
modifications.\(^{20}\)

\(^{18}\) Kei 4 [Fourth Division, International Trade Bureau], ‘Kiuchi-shi Reta ni kansuru 11-gatsu 22-nichi
Kaigi Gijiroku’ [Minutes of the meeting on Mr Kiuchi’s letter on 22 November], 22 November 1951,
DAO, B’0.0.2.0.
\(^{19}\) Commonwealth Liaison Committee, ‘Minutes of the Twenty-Ninth Meeting’, 12 December 1951, AA,
CP553/1, 194/B/10/103.
\(^{20}\) Sterling Area Working Party, ‘Minutes of the Seventy-Ninth Meeting’, 31 December 1951, AA,
CP553/1, 194/B/10/50/6.
The handling of Kiuchi's letter gave MITI and the MFA the opportunity to push their case strongly for an expansion of sterling trade and soft-currency treatment for Japan. It allowed them to grasp the initiative on Japan's sterling policy from the FECB and MOF, which were more inclined to impose restraints on excessive accumulation of sterling surplus. In fact, Menzies observed that domestic opinion had turned favourably towards promotion of sterling trade, because of the constant pressure on MITI for an increase in sterling procurement to offset the accumulated surplus. He also acknowledged the role of Sir Esler Dening, who was to be appointed the first postwar British Ambassador to Japan in May 1952, in guiding Japanese public opinion in this direction, especially in the Osaka region. Menzies' observation was not without foundation, because the textile industry — the frontrunner in Japan's export drive to the sterling area — was concentrated in the Osaka region. In a panel discussion for the journal *Keizai Rengo* on the shape of Japan's trade relations after the Peace Settlement, Takeshi Sakurada, President of the Nisshin Spinning Company and later President of the Japan Chamber of Commerce and Industry, pointed out that Tokyo business circles had not understood the significance of sterling trade, which he considered would contribute towards Japan's economic self-reliance and reduce dependence on extra dollar supply through special procurement. In fact, cotton exporters presented a petition to the government as early as November, opposing the introduction of export controls to restrain sterling accumulation.

**THE REJECTION OF THE FECB PROPOSAL FOR EXPORT FINANCE RESTRAINT MEASURES**

Japan's exports to the sterling area continued to increase from late 1951 to early 1952. Table 8.1 clearly indicates the effect of the new Sterling Payments Agreement in unleashing import demand for Japanese goods among the sterling area countries; Japan's sterling remained at quite a high level from September 1951 to April 1952.

---

22 'Kowa Sekkin to Keizai Jiritsu no Shomondai' [Peace settlement and the problems in economic self-reliance], *Keizai Rengo*, no.39, March 1951, pp.8-11.
23 Kyushichi Toyoshima, President, Nihon Menshifu Yushutsu Kyokai [Japan Cotton Yarn and Textile Exporters's Association] to MOF, the ESB, MITI and the FECB, 'Pondo Chiikimuke Yushutu Seigenan ni taisuru Hantai Chinjo no Ken' [Petition opposing proposed export restrictions against the sterling area], *Yushutsu Menshifu Geppo*, vol.1, no.8, December 1951, p.29.

213
### Table 8.1  
**Japan’s Export-Import Trade with the Sterling Area: January–March 1951 to April–June 1952 ($ million)**

<table>
<thead>
<tr>
<th></th>
<th>Exports to Sterling Area</th>
<th>Imports from Sterling Area</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-Mar</td>
<td>96</td>
<td>139</td>
<td>-43</td>
</tr>
<tr>
<td>Apr-Jun</td>
<td>154</td>
<td>160</td>
<td>-6</td>
</tr>
<tr>
<td>Jul-Sep</td>
<td>144</td>
<td>130</td>
<td>14</td>
</tr>
<tr>
<td>Oct-Dec</td>
<td>192</td>
<td>85</td>
<td>107</td>
</tr>
<tr>
<td>1952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan-Mar</td>
<td>182</td>
<td>130</td>
<td>52</td>
</tr>
<tr>
<td>Apr-Jun</td>
<td>158</td>
<td>121</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>926</strong></td>
<td><strong>765</strong></td>
<td><strong>161</strong></td>
</tr>
</tbody>
</table>


Australia contributed substantially to the increase in Japan’s sterling exports to become Japan’s fourth largest export market in 1951, after the United States, Indonesia and Pakistan. Japan’s main export item to Australia in this year was not the traditional cotton piece goods but steel. Australia’s housing boom had caused a quadrupling in purchases of Japanese steel over the previous year, making Australia Japan’s largest steel customer in terms of sales value during this year.24

Japan’s purchases from the sterling area did not catch up with exports, because of limited supplies and higher prices in sterling countries. Moreover, the administrative transfer of sterling balances for settlement in sterling of Japan’s imports from non-dollar, non-sterling area countries, as approved in the new Payments Agreement, did not utilise as much of Japan’s sterling surplus as expected. On the contrary, it was suspected that non-dollar non-sterling countries in Southeast Asia like Thailand and Indonesia purchased...

---

24 The Japanese steel industry appreciated the significance of Australian market in 1951 in a reserved manner. The steel mills were more impressed with the sudden rise of their exports to Argentina which also more than quadrupled from the previous year and recorded the largest quantity in 1951. Nihon Tekko Renmei [Japan Steel League], *Sengo Tekkoshi* [The postwar history of steel], 1959, pp.631-633. Argentina was to grow to be Japan’s most important steel market during the 1950s and emerged as Australia’s rival in wool sales to Japan, using the value of its steel market as bargaining leverage, in 1953–54 when Japan’s balance of payments position deteriorated, as discussed in Chapter 9.
Japanese goods via Hong Kong, paying with their abundant sterling funds, while exporting their commodities to Japan for dollars.\textsuperscript{25} Table 8.2 indicates that Japan’s sterling balance tripled from £41 million at the end of September 1951 to £127 million at the end of June 1952. In early 1952, a policy debate emerged within the Japanese government over measures to tackle the rapid accumulation of sterling surpluses.

Table 8.2 Japan’s Foreign Currency Balances, June 1950–June 1952

<table>
<thead>
<tr>
<th>Year/Months</th>
<th>Dollar Account ($ million)</th>
<th>Pound Account (£ million)</th>
<th>Open Account ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>17</td>
<td>-28</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>353</td>
<td>21</td>
<td>-10</td>
</tr>
<tr>
<td>December</td>
<td>462</td>
<td>19</td>
<td>27</td>
</tr>
<tr>
<td>1951</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>401</td>
<td>15</td>
<td>43</td>
</tr>
<tr>
<td>June</td>
<td>322</td>
<td>44</td>
<td>37</td>
</tr>
<tr>
<td>September</td>
<td>484</td>
<td>41</td>
<td>73</td>
</tr>
<tr>
<td>December</td>
<td>583</td>
<td>75</td>
<td>120</td>
</tr>
<tr>
<td>1952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>643</td>
<td>97</td>
<td>137</td>
</tr>
<tr>
<td>June</td>
<td>678</td>
<td>127</td>
<td>135</td>
</tr>
</tbody>
</table>

Note: Each figure indicates balance at the end of the corresponding month.


The FECB opened the debate with Kiuchi proposing drastic measures to cope with the sterling accumulation. The Chairman of the FECB called for the diversion of Japanese exports from the sterling area to the dollar area, including particularly those items which were produced from raw materials obtained from the dollar area, such as steel. It was reported that Kiuchi suggested that Japan be treated as an American Account country, that is, within the dollar area, and that it restore the dollar convertibility clause in the Sterling Payments Agreement in the forthcoming Anglo-Japanese Trade Review Conference, as one

measure to implement this policy. Despite past setbacks, the FECB had not given up its aspiration for drastic measures to overcome the sterling accumulation, even at the risk of Japan’s losing a considerable portion of its exports to the sterling area.

The FECB did not waste time in implementing restraint measures. On 16 February, it announced the introduction of emergency measures to tighten export finance for sterling. Kiuchi admitted that these measures would not solve the fundamental problem of Japan’s sterling accumulation, saying that they were introduced ‘only as a part of the process’ towards revision of the Sterling Payments Agreement. He suggested to introduce a realistic exchange rate of around 850 to 900 yen to one pound sterling, instead of the existing 1008 yen. If fully implemented, the FECB’s proposal would severely restrain Japanese exports to the sterling area.

Japanese business was opposed to the measures, pointing out that the sterling area was a good customer, particularly for the cotton textile industry. MITI officials shared this anxiety about a possible reduction in Japan’s sterling trade, while conceding the need to rectify the problem of excessive sterling accumulation. Hence, the Ministry issued a counter-proposal for quantitative export adjustment measures for steel and textiles soon after the implementation of the FECB’s new financial restraints, which had already led to

---

27 ‘Pondo Taisaku wo Sekkyokuka’ [Towards active measures against the sterling accumulation], Nihon Keizai Shimbun, 17 February 1952. The FECB’s emergency measures included the lowering of the yen-denominated sterling forward market exchange rate and the shortening of the ‘export booking period’ during which the Japanese government guaranteed Japanese exporters to compensate for any loss resulting from possible devaluation of the pound sterling before they received export proceeds. In particular, the new regulations provided that the ‘export booking’ could only be made after the arrival of export letters of credit instead of after the conclusion of export contracts. Thus Japanese exporters had to take considerable risks, knowing that the pound might be devalued, as had been persistently rumoured. 
28 ‘Pondo Mondai no Bapponsaku’ [Drastic measures for the sterling problem], Nihon Keizai Shimbun, 22 February 1952. 
30 The statement of Taiichiro Matsuo, Deputy Director, International Trade Bureau, MITI, 26 February 1952, in the panel discussion for a journal of the Tokyo Chamber of Commerce and Industry. ‘Pondo Taisaku wo megutte’ [On the measures against the sterling accumulation], Tosho, no.59, March 1952, p.9.
virtual suspension of new export contracts for the sterling area. While the FECB doubted the efficacy of the MITI proposal, Hayato Ikeda, Minister for Finance and a close aide to Prime Minister Yoshida, adopted the MITI line. Ikeda accepted the principle that it was unfavourable to try to overcome the sterling accumulation through drastic financial restraints, which might have an adverse effect on Japanese exports. Although he had been considering other financial measures, he found them no longer necessary now that MITI had initiated its own export adjustment program.

Ikeda’s intervention turned the tide. On 26 February, officials of MITI, MOF, the FECB and the Bank of Japan agreed to a considerable relaxation of the financial export restraints of 16 February and to the adoption of the MITI proposal for quantitative export adjustments for steel and textiles. Under these measures, the government would issue approval for exports of these items up to a ceiling, set according to the export levels of the previous year. With regard to exports to entrepot markets such as Hong Kong and Singapore, the ceiling would be based on 1950 rather than 1951 levels, as the latter were regarded as being abnormally high.

This was a serious blow to the FECB, and especially to its Chairman, who seems to have been shocked. Kiuchi later wrote that February 1952 marked an important turning point for Japan’s postwar trade policy, with public opinion driving the Yoshida cabinet to deny the Board’s sound logic that the national currency should be kept ‘as hard as possible’. Kiuchi’s indignation was such that he denounced the government decision as an outcome of the policy to ‘consider it wise not to uphold any principle and pursue tiny marginal profits arbitrarily’. The FECB policy to enforce tight exchange controls had been rejected in favour of an expansion of overall trade volumes, as proposed by MITI. This

---

31 ‘Tetsu nado Yushutsu Chosei’ [Export restraint on steel], Nihon Keizai Shimbun, 21 February 1952.
32 ‘Pondo Taisaku Tsusansho-An ni Kirikae: Zosho, Gensokuteki ni Ryokai’ [Finance Minister accepts the MITI proposal against the sterling accumulation], Nihon Keizai Shimbun, 26 February 1952.
33 ‘Shikinmen no Kisei Kanwa’ [Relaxation of financial restraints], Nihon Keizai Shimbun, 27 February 1952. Under relaxation, the ‘export booking period’ was extended from the original FECB plan and Japanese exporters could make ‘export booking’ at the time of conclusion of export contracts. Thus they did not have to wait for arrival of export letter of credits.
34 Gaimu Daijin [Minister for Foreign Affairs], ‘Pondo Chiikimuke Yushutsu Chosei ni kansuru Ken’ [On the export adjustments for the sterling area], no.Kei-4-Go 170, 12 March 1952, DAO, B’0.0.2.1.
35 Nobutane Kiuchi, ‘Boeki Seisaku no Kaiko to Hansei (Sono 1)’ [Retrospect and review of trade policy, part 1], Gaikoku Kawase, no.100, 1 August 1954, p.5.
36 Kiuchi, ‘Boeki Seisaku no Kaiko to Hansei (Sono 2)’, Gaikoku Kawase, no.101, 15 August 1954, p.4.
ensured that Japan’s trade policy in the post Peace Settlement period would focus on expansion of trade volumes with non-dollar areas, especially the sterling area, rather than on a strict balancing of trade with each currency area.

EXTERNAL OPPOSITION TO RESTRICTIVE MEASURES ON STERLING EXPORTS

The setback for the FECB did not mean that Japanese officials advocated expansion of sterling trade unconditionally or that they accepted Japan’s sterling accumulation. Rather, they emphasised increasing the supply of strategic raw materials and foodstuffs from the sterling area in order to make the most efficient use of Japan’s abundant sterling surplus. A good example was the treatment of Japanese steel exports to the United Kingdom in early 1952.

In early February, Japanese steel mills entered into a contract with a visiting British steel purchasing mission to export 110,000 tons of steel at £490 million.\(^{37}\) The Japanese government did not approve this export contract on the grounds that London had declined in return to offer Japan 70,000 tons of wheat and 20,000 tons of sugar which Britain had planned to purchase from Australia. Tokyo insisted that London’s refusal revealed its unwillingness to supply Japan with essential goods and help it lessen its accumulated sterling surplus.\(^{38}\) This indicates Japan’s preparedness to tolerate a high level of sterling surplus as long as it could be used to purchase essential commodities from the sterling area. The British delegates in Tokyo objected to Japan’s refusal to ratify the steel export contract on the grounds that the proposed barter deal of Japanese steel for Australian wheat and sugar contradicted the spirit of less restrictive trade, as embodied in the Sterling Payments Agreement. If Britain accepted the proposed barter deal, delegates claimed that she might be forced to purchase these foodstuffs from somewhere else, making dollar payments.\(^{39}\)

Unexpected pressure from Washington broke the impasse. SCAP had consistently adopted a ‘hands off’ policy on Japan’s sterling trade problems since the negotiation of the

\(^{37}\) ‘Tekko 11-man ton Seiyaku’ [110,000 tons of steel contract concluded], *Nihon Keizai Shimbun*, 2 February 1952.

\(^{38}\) Gaimusho, ‘DS tono Teirei Kaiken’ [Regular meeting with DS (Diplomatic Section, SCAP)], 9 February 1952, DAO, E’0.0.0.5.

1951 Sterling Payments Agreement. Washington maintained this approach in mid February, even though the US administration did consider it desirable for Japan to reach some agreement with the sterling area to overcome the excessive sterling accumulation without introducing restrictive measures. On receiving the news of the Japanese government’s refusal to ratify the steel export contract to Britain, however, Washington sent a strong message to SCAP.

Washington instructed SCAP to inform the Japanese government that Britain was making an effort to rearm in the interest of the free world and that its defence program would be seriously hampered if Japanese steel was unavailable. Washington’s aim was to promote Japan’s sterling trade, thus encouraging Japan to utilise its sterling surplus to maximise procurement of commodities that would contribute to its economic development, to save dollars, and also to develop sources of raw materials in Southeast Asia either through import trade or overseas investment. This was similar to the idea behind the US-Japan Economic Cooperation Program in that Washington tried to link Japan’s production capacity with development in Southeast Asia. What was different, however, was that the US administration was not prepared to provide any financial aid. Japan was asked not to impose restrictions on trade with the sterling area. Marquat conveyed Washington’s position to the MFA, although reluctantly, perhaps due to his sympathy with Japan’s difficulty in handling the sterling accumulation. SCAP’s intervention compelled the Japanese government to approve steel exports to Britain on condition that a portion of the consignment be deferred until the latter part of the year.

Apart from US pressure, there was another reason for Japan’s adopting a less restrictive approach to sterling trade. In discussions over the desirability of renewing the Sterling Payments Agreement in mid 1952, the MFA examined several policy options to

---

40 Campbell, ‘Sterling Problem’, 23 February 1952, SCAP, 6417(22), ESS(E)00968; Gordon A. Millar, Signal Corps, Executive Officer, SCAP to Sherwood F. Fine and W.W. Diehl, Diplomatic Section (DS), SCAP and Campbell, 19 February 1952, *ibid.*

41 Radiogram from DA to SCAP, no.DA902290, 29 February 1952, *ibid.*

42 Radiogram from DA to Fine, Diehl and Campbell, 1 March 1952, *ibid.*

43 In fact, Washington instructed SCAP to make sure that the US intervention in Japan’s refusal of steel export approval for Britain should not be interpreted as a sign of US readiness to assist Japan in financial difficulties arising from the sterling accumulation. Radiogram from US Department of the State to SCAP, no.0315302, 4 March 1952, *ibid.*

44 Gaimusho, ‘DS tono Teirei Kaiken’, 12 March 1952, DAO, E’0.0.0.5.

45 Campbell to Marquat, ‘Steel for UK’, 13 March 1952, SCAP, *op.cit.*
tackle the excessive sterling surplus. The option to terminate the Agreement had to be ‘avoided by any means’ as this could have had an adverse effect on Anglo-Japanese relations and caused considerable damage to Japanese export industries. The option to revise the Agreement so as to exempt Japan from its obligation to abide by the official cross rate between the US dollar and the pound and then to apply a more realistic exchange rate to Japanese exports to the sterling area was also ruled out. This was because it might infringe the IMF obligation to abide by the official cross rate except for a spread of 1 per cent off parity, creating problems for Japan’s membership in the IMF, which was due in August. The option to establish an export-import price adjustment fund by imposing a levy on sterling export proceeds and to subsidise imports from the sterling area might infringe the principle of most-favoured-nation treatment stipulated in the GATT provisions. It might also affect discussions on Japan’s accession among the GATT contracting parties.

Considerations of Japan’s membership in the IMF and the GATT prevented the Japanese government from introducing selective regulatory measures to cope with sterling accumulation, with government leaders giving priority to participation in the Bretton-Woods system. In heated discussions over the control measures in February, Ikeda ruled out adjusting the yen-sterling exchange rate because of the unfavourable impact this might have on Japan’s membership in the IMF. In short, the long-term objective of participation in a freer international trade regime prevented the government from acting to curb fluctuations in sterling trade. The only alternative left was two-way expansion of trade in order to balance Japan’s overall sterling trade.

**JAPAN INCLINES TOWARDS EXPANDING STERLING TRADE**

In view of this situation, the Japanese pushed for increased availability of commodities from the sterling area in the Sterling Trade and Payments Review Conference, which was held in March 1952 in Tokyo to discuss the imbalance in trade between Japan and the sterling area. It was inevitable that Japan would take up the issue of excessive accumulation of sterling surplus.
surplus in the Review. London instructed H.H. Thomas, Financial Minister for the UKLM, to deter the Japanese from renouncing the Sterling Payments Agreement or asking for a revision. The British government also objected to Japan’s introduction of selective export controls to the sterling area without consultation, preferring a tightening of import restrictions by the sterling area as a remedy to the problem. London was obviously concerned about Japan’s desire to revert to the previous arrangement by, for example, restoring the dollar convertibility clause, as advocated by the FECB.

In fact, though, London’s anxiety did not materialise in the Review. Although MITI’s Oda complained about the lack of availability and high prices of commodities from the sterling area, he did not call for a revision of the Sterling Payments Agreement. The British delegates were so impressed by Oda’s approach that they later reported to London that the Japanese stance was ‘remarkably sensible’. While the two sides did not reach agreement on specific measures to cope with the accumulation, London acknowledged the Japanese claim that the trade imbalance was caused by the limited availability and high prices of sterling commodities.

While the Japanese were prepared to try to overcome the sterling accumulation through increased purchases of sterling commodities, they also emphasised the need to lower trade barriers against Japanese exports to the sterling area. They requested, for example, most-favoured-nation treatment for Japanese exports in the sterling area. They also contended that the export adjustment measures introduced in early March were only of a temporary nature, emphasising Japan’s commitment to expansion of two-way trade with the sterling area. The Japanese stance was based on very real concern about the introduction of drastic import restrictions by the sterling area countries to safeguard the balance of payments. These restrictions were to be implemented soon after the Review, and in fact, the MFA registered an official protest about Britain’s unilateral suspension of import licensing for cotton from Japan without due consultation in April. London rejected the Japanese case, saying that Japan was displaying the same hasty reaction which had led to the

51 Cable from Crosec to Canberra, no.46, 20 March 1952, AA, A1838, 479/2/10 Part 2.
imposition of export adjustment measures in March. The Japanese emphasis on relaxation of import controls gave the British delegates the impression that the Japanese officials were 'obviously very frightened' at the forthcoming introduction of drastic import restrictions.

Japan's emphasis on two-way expansion of sterling trade at the Review reflected the victory of MITI and the MFA over the FECB and MOF over the handling of the sterling accumulation. At the conference, Oda went so far as to assert to the British delegates that the tightening of export finance measures introduced by the FECB in February was a 'dead issue', a point the MFA officials agreed on. In front of the British delegates, Kiuchi contradicted Oda, emphasising that these financial measures were still in effect. He added, though, that they were intended to discourage speculation and not to curtail Japan's exports to the sterling area. Kiuchi did not conceal his concern about the sterling accumulation, protesting that the existing surplus level was 'shocking and alarming' and contrary to British assurances given repeatedly in the payments negotiations in the previous year. With the tightening of import licensing imminent, Japanese financial officials had to restrain themselves from taking action to curb Japan's sterling accumulation because such an approach might justify the strengthening of import restrictions by the sterling area. This could result in a decline in Japan's exports even to a level below that before the conclusion of the 1951 Sterling Payments Agreement, as was actually to happen later. Hence, while agreeing to Kiuchi's claim about the effectiveness of financial measures in tackling sterling accumulation, MOF officials stressed their intention to encourage relaxation of import finance for sterling commodities. In this way, they hoped to impress the British delegates with their willingness to cooperate and achieve two-way expansion of Japan's sterling trade.

Japan's commitment to expansion of sterling trade gave Japanese officials an appreciation of Australia's role as an engine to maintain Japan's trade with the whole sterling area at a high level. In the Sterling Trade Review Conference, the Japanese attributed the sterling accumulation to the unexpectedly low procurement of Australian

---

54 Sterling Area Working Party, 'Minutes of the Eighty Sixth Meeting', op.cit.
55 Telegram from Dening to FO, no.496 DRIVE, 25 March 1952, AA, CP553/1, 194/B/10/50/6.
56 Telegram from Dening to FO, no.471 DRIVE, 21 March 1952, ibid.
57 Telegram from Dening to FO, no.496 DRIVE, 25 March 1952, op.cit.
wheat due to bad crops. This was the only item singled out by the Japanese, illustrating Australia's significance as the main supplier in the sterling area. In fact, Japan's expectations concerning Australia were such that Oda approached Menzies with a proposal to purchase 350,000 tons of wheat, 150,000 tons of barley, 50,000 tons of sugar and 50,000 tons of iron ore. Although these figures were beyond Australia's realistic supply capacity, Oda's proposal indicated that Japan regarded Australia as a promising alternative supplier to the United States. It seemed that Australia-Japan trade relations would flourish as long as Japan had abundant foreign currency to finance purchases from Australia.

Japan's huge bilateral deficit because of active procurement from Australia meant that other sterling area countries had greater purchasing power to direct towards Japanese industrial goods. Perkins points out that Australia had the trade structure to offset its deficit in dollars with a huge surplus in non-dollar, non-sterling balances. The resultant surplus in Australia's overall non-sterling balance had been absorbed by the deficit in its sterling balance during the 1950s, except in 1952-53, when it introduced tight import licensing because of the deterioration in its balance of payments position. This observation suggests that in the postwar period the sterling surplus earned by Australia in bilateral trade with Japan had been transferred to other sterling area countries so that they could finance their purchases from Japan. Despite the worldwide trend towards tight exchange controls in a period of dollar shortage, Japan and the sterling area countries benefited from a multilateral settlement system provided by the Sterling Payments Agreements. Under this system Japan could continue to increase its production level to meet active demand for Japanese goods within the sterling area. It, in turn, could also utilise its overall sterling surplus to maintain procurement of important raw materials such as raw wool.

---

58 Sterling Area Working party, 'Minutes of the Eighty Fifth Meeting', 20 March 1952, op.cit.
59 Menzies to DCA, 12 January 1952, AA, A609, 552/137/15. Australia introduced the embargo on iron ore exports for the purpose of conservation of scarce domestic resources in 1938. This decision was made in reaction to the Japanese move to develop a Western Australian iron ore mine through a British dummy company. The embargo was lifted in 1960 following the discovery of abundant deposits in the Kimberley district in Western Australia. For Australia's decision for the iron ore embargo, see Akio Watanabe, 'Tekkoseki Kin'yu Mondai wo meguru Nichi-Go Funso (1938-39 nen)' [The Japan-Australia dispute over the iron ore embargo (1938-39)], Chihiro Hosoya, ed., Taiheiyo-Ajia-Ken no Kokusai Keizai Funsoshi: 1922-1945 [The history of international economic disputes in the Pacific-Asia sphere: 1922-1945], Tokyo Daigaku Shuppankai, 1983, chapter 8.
From this viewpoint, Australia was the lynchpin in the postwar multilateral transaction system between Japan and the sterling area. Without Australia’s huge capacity to supply commodities, Japan could not have used the enormous sterling surplus it earned from exports produced from dollar financed raw materials. Such a situation would have weakened the positions of MITI and the MFA and might have strengthened the call for restoration of the dollar convertibility clause or the introduction of dollar cash settlement in sterling trade. If the possibility of a dollar drain in trade with Japan had reemerged, the exchange control authorities within the sterling area would have had no hesitation in restricting imports from Japan. Japan would then have lost both export markets to sustain its production level as well as handy sterling cash to finance its procurement of commodities from the sterling area. In other words, Australia’s presence increased Japan’s commitment to expansion of trade with the sterling area.

Once the Japanese government decided to promote imports from the sterling area as a solution to the problem of sterling accumulation, it began to pursue long-term purchase contracts to secure the stable supply of important commodities from the sterling area. In his talks with Menzies in August, Ushiba proposed a three-year contract to purchase 150,000-200,000 tons of barley annually. This was a period when Japan still faced a shortfall of foodstuffs for domestic consumption. The Japanese government entered into various trade arrangements to secure a supply of foodstuffs, as well as launching a five-year program to expand domestic food production in 1952. The Japanese government also made a sudden decision to purchase 700,000 tons of Canadian barley in October, when the Australian contract was still under negotiation. Menzies warned the MFA that this sort of speculative action would make the Australian government doubt Japan’s desire for a long-term contract. His protest seems to have influenced the Japanese officials, and the Japanese Food Agency duly entered into a contract in mid November with the Australian Barley Board, which promised to make 50 per cent of Australia’s exportable surplus barley

63 Norinsho [Ministry of Agriculture and Forestry (MAF)]. Norinsho Nempo [The annual of the Ministry of Agriculture and Forestry], 1954, pp.413-414.
available for shipment to Japan. Such Japanese initiatives as the barley contract show that Japan’s trade strategy was shifting in emphasis from exchange controls to achieve dollar savings to the securing of a stable supply of strategic commodities from non-dollar sources.

Menzies believed that the impetus for the government’s decision on the barley contract was provided by MITI and the MFA. By late 1952, the Japanese government had become concerned about the rapid fall in the sterling balance, caused by an intensification of import licensing by the sterling area countries from March. The two Ministries had to persuade MOF, which took over control of foreign exchange on the abolition of the FECB in April, to allocate these declining funds to barley purchases. Domestic supply conditions were so poor that the Japanese Ministry of Agriculture and Forestry (MAF) was forced to purchase overseas foodstuffs, including those from the sterling area, even in 1953 when Japan’s sterling shortage deteriorated further.

Another explanation for the enthusiasm of MITI and the MFA for the barley contract is found in the Ministries’ desire to increase Japan’s diplomatic leverage to a point where it could ask Australia to relax its import restrictions on Japanese goods. The MFA issued a Note Verbale to the Australian Embassy in Tokyo on 17 November, only three days after the conclusion of the barley contract. In it, the Japanese government drew Australia’s attention to Japan’s running deficit in sterling trade and called for a relaxation of import controls. The Note mentioned the barley contract and conveyed the MFA’s willingness to conclude similar arrangements for other commodities, to ‘bring about an orderly expansion’ of Australia-Japan trade, the ‘common objective for both countries’. MITI and the MFA were, it seems, trying to utilise the atmosphere of goodwill created by the barley contract to gain Australia’s cooperation in alleviating Japan’s sterling shortage. The Ministries were already aware that the solution to the problem lay in the relaxation of import restrictions by the sterling area including Australia, and that this could only be achieved through diplomatic channels. From this perspective, the conclusion of the barley contract indicates the

---

67 Norinsho, 1954, pp.405-408.
68 MFA to Australian Embassy in Tokyo, ‘Note Verbale’, 17 November 1952, Gaimusho Keizaikyoku Dai 4-ka, Nichi-Go Tsusho Kosho no Keiti oyobi Mondaiten [The development of the Japan-Australia trade negotiations], January 1957, pp.2-4.
consolidation of a more liberal trade strategy under which Japan aimed to expand both import and export trade with the non-dollar area as the key to achieving the national objective of economic self-reliance.

Thus Japan consolidated its commitment to the trade strategy of expansion of non-dollar trade through the new Sterling Payments Agreement. The removal of the dollar convertibility clause unleashed strong demand in the sterling area for Japanese goods. This gave the Japanese government the task of coping with an excessive accumulation of sterling surplus in 1951–52. Although the Japanese foreign exchange control authority, led by FECB Chairman Kiuchi, attempted to introduce export regulations to prevent distortion of the Japanese foreign currency position, the government, led by MITI and the MFA, eventually opted to promote commodity procurement from the sterling area to offset its huge sterling surplus. It was not in Japan’s interest to adopt tight controls and run the risk of suppressing exports to the sterling area, which had grown to be a good market not only for competitive Japanese textiles and other light industrial goods but also for uncompetitive heavy and chemical goods. Behind the government decision lay US pressure for cooperation with the British defence effort and the need to avoid selective measures which might infringe the principles of the freer postwar international trade system under the IMF and the GATT.

In the event, the move to refrain from tight export restraints forced the Japanese government to pursue diversion of import trade from North American sources to avoid dollar expenditure. This drew Japan’s attention to the significance of developing commercial links with Australia, which had the largest supply capacity of the non-dollar countries, through the introduction of long-term purchase contracts. Furthermore, Australia played an important role in sustaining Japan’s trade with the whole sterling area, since its bilateral trade surplus with Japan indirectly supplied the other sterling area countries with purchasing power to obtain Japanese goods.

As long as Japan sought to expand sterling trade, it needed to hold a certain amount of sterling cash on hand to finance its commodity purchases. When tight import licensing caused its sterling position to deteriorate, Japan again faced a decision that would have an important impact on the consolidation of its postwar trade strategy.
9 Economic Diplomacy: The Japanese Response to the Sterling Shortage, 1953–54

By the time Japan had clarified its commitment to expansion of sterling trade to divert commodity purchases from dollar sources, as discussed in Chapter 8, it was facing a new problem: a serious sterling shortage caused by the sterling area’s tight import controls and a subsequent crisis in the balance of payments in 1953. Measures adopted by the Japanese government to improve its sterling balances entrenched the direction of the Japanese trade strategy in the post Peace Settlement period. The crisis in the balance of payments made the Japanese government and business leaders recognise the need to accelerate the rationalisation program to strengthen the competitiveness of the heavy and chemical industries. This meant that Japan could not introduce drastic import restrictions to counter those of the sterling area, since such restrictions might intensify inflationary pressure and hence hamper the rationalisation program. Furthermore, Japan could not count on extra dollar supply because special procurement was declining and the United States was not prepared to launch a new aid program that would assist Japan.

With no immediate solution at hand, the Japanese government was to adopt a strategy of self-help through industrial rationalisation and other measures. At the same time, it was aware of the need to develop commercial links on a more multilateral basis in order to secure purchases of commodities from non-dollar sources and save dollars. This highlighted the significance of achieving a reduction in import restrictions against Japanese goods in the sterling area. As long as Japan did not countervail import restrictions, the solution had to be sought in diplomatic approaches to the individual sterling area countries. Since Japan’s bilateral trade deficit with Australia was larger than that with the other sterling area countries, Australia became the main target of Japanese economic diplomacy in seeking relaxation of import licensing.
This chapter examines the factors leading to Australia's relaxation of the discriminatory import licensing system against Japan in November 1954. This was a landmark in the history of the postwar Australia-Japan trade relations in that Japan was granted soft currency treatment in Australia's import licensing system. This normalisation of bilateral trade relations was the product of a remarkable expansion of Australia-Japan two-way trade under the multilateral settlement system provided by the Sterling Payments Agreement. The enormous benefits of this system brought the two countries to the next stage in commitment to expand trade on a more multilateral basis.

**JAPAN'S SLOW RESPONSE TO THE STERLING SHORTAGE PROBLEM**

The intensification of import licensing which the sterling area countries collectively implemented from March 1952 began to affect Japan's sterling account from mid 1952. Table 9.1 shows that Japan's sterling trade was in deficit in the October quarter of 1952. The sterling balance at the end of June 1953 had fallen so drastically that it was only one-quarter of the balance for the corresponding period in the previous year, as indicated in Table 9.2.

The problem of the sterling trade deficit drew the attention of the Japanese government in mid 1952, despite the still high level of sterling accumulation. Japanese officials approached the British to try to improve the situation. While requesting increased availability of sterling commodities, the Japanese government expressed strong concern about the tightening of import licensing. In October, Japan decided to remove the export adjustment measures for steel and textile exports to the sterling area. The rapidly dwindling sterling surplus also drove Japan to accept further extension of the Sterling Payments Agreement at the end of the year. At this stage, it was in Japan's interest to

---

1 'Reply by Her Majesty's Government to Japanese Observations of 1 August, 1952', undated (August 1952?), AA, A609, 552/137/15

2 MFA, Tokyo, 'Note Verbale', no.1345, 22 October 1952, ibid.

3 'Nichi-Ei Shiharai Kyotei Ichinen Encho' [One year extension of the Anglo-Japanese Payments Agreement], Nihon Keizai Shimbun, 28 December 1952. The Agreement had been extended until the end of December, following its expiry at the end of August 1952. 'Kotoshi Sue made Encho: Nichi-Ei Shiharai Kyotei Ryokoku no Iken Icchi' [Agreement reached over extension of the Anglo-Japanese Payments Agreement until the end of the year], Nihon Keizai Shimbun, 16 August 1952.
maintain sterling trade through soft-currency settlement in order to avoid deterioration of its sterling trade deficit.

Table 9.1  Japan’s Export-Import Trade with the Sterling Area, July–September 1952 to October–December 1954

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Exports to Sterling Area</th>
<th>Imports from Sterling Area</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jul–Sep</td>
<td>108</td>
<td>117</td>
<td>-9</td>
</tr>
<tr>
<td>Oct–Dec</td>
<td>92</td>
<td>135</td>
<td>-43</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Exports to Sterling Area</th>
<th>Imports from Sterling Area</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan–Mar</td>
<td>74</td>
<td>167</td>
<td>-93</td>
</tr>
<tr>
<td>Apr–Jun</td>
<td>75</td>
<td>174</td>
<td>-99</td>
</tr>
<tr>
<td>Jul–Sep</td>
<td>82</td>
<td>143</td>
<td>-61</td>
</tr>
<tr>
<td>Oct–Dec</td>
<td>87</td>
<td>118</td>
<td>-31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Exports to Sterling Area</th>
<th>Imports from Sterling Area</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan–Mar</td>
<td>86</td>
<td>122</td>
<td>-36</td>
</tr>
<tr>
<td>Apr–Jun</td>
<td>109</td>
<td>139</td>
<td>-30</td>
</tr>
<tr>
<td>Jul–Sep</td>
<td>131</td>
<td>85</td>
<td>-46</td>
</tr>
<tr>
<td>Oct–Dec</td>
<td>166</td>
<td>87</td>
<td>-79</td>
</tr>
</tbody>
</table>


Table 9.2  Japan’s Foreign Currency Balance, September 1951–December 1953

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Dollar Account ($ million)</th>
<th>Pound Account (£ million)</th>
<th>Clearing Account ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>719</td>
<td>120</td>
<td>127</td>
</tr>
<tr>
<td>December</td>
<td>760</td>
<td>89</td>
<td>128</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Dollar Account ($ million)</th>
<th>Pound Account (£ million)</th>
<th>Clearing Account ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>836</td>
<td>52</td>
<td>84</td>
</tr>
<tr>
<td>June</td>
<td>834</td>
<td>33</td>
<td>57</td>
</tr>
<tr>
<td>September</td>
<td>883</td>
<td>33</td>
<td>45</td>
</tr>
<tr>
<td>December</td>
<td>789</td>
<td>43</td>
<td>70</td>
</tr>
</tbody>
</table>

Note: Each figure indicates the amount of balances at the end of the corresponding month.

Source: Keizai Kikakuchyo, 1962, p.185.
At the beginning of 1953, however, there was no sign of any improvement in the situation, and Japan's sterling balance had fallen to around £50 million, the lowest figure since September 1951. Alarmed at the ongoing problem of sterling shortage, Tokyo officially called for an opening of trade talks, to which Britain agreed, but only for explanatory purposes. The Anglo-Japanese trade talks were held in March in Tokyo and in April in London. The Japanese issued a strong warning that Japan would be forced to curtail purchases of sterling commodities, unless the sterling area relaxed its tight import restrictions. The British government, however, considered it unlikely that the trade surplus with Japan of the past several months would continue, as Japan would not be increasing its purchases of wool and cotton. In fact, the general policy of the British Commonwealth for 1953 was to keep import licensing tight until Japan's sterling balance fell to around £55 million, and so Britain was not prepared to increase substantially its purchases from Japan. All that the two sides agreed upon was that the sterling area would relax its import licensing to maintain Japan's annual sterling revenue at £197 million, almost the same amount as the 1952 annual figure, that a joint review conference would be held in four or five months time, and that the United Kingdom would offer Japan dollar swap facilities.

Despite the feeling of alarm at the sterling shortage problem, revealed in Japan's diplomatic approach to the sterling area countries, the Japanese government was slow to introduce drastic measures to improve its trade balance with the sterling area. In government talks on the level of the April–September 1953 foreign currency budget, held in March 1953, MITI proposed to avoid curtailing purchases of sterling commodities through active use of dollar swaps; as the dollar balance still stood at a high level, as shown in Table 9.2. MOF intervened, stating that MITI estimates of Japan's sterling balance for the next six months were overly optimistic. The foreign currency budget for the first half
of the financial year (FY) 1953 was settled at ministerial level, where it was agreed to allocate $540 million of the overall foreign currency budget of $1,100 million to the dollar area, $300 million to the sterling area and $240 million to the open account area, in line with the MITI proposal.¹¹ Compared with total imports from the sterling area of $538 million in FY1952, the allocation of $300 million for the April–September quarters meant that purchases from the sterling area would be maintained at the existing level, without being affected by the rapidly decreasing sterling balance.

The only measure which the government adopted to cope with the sterling shortage was to suspend the Automatic Approval process for imports from the sterling area on 13 February. This was adopted because applications for Automatic Approval imports from the sterling area were increasing rapidly, due to speculation that the government would introduce import controls. The prices of sterling commodities had fallen considerably compared with the previous year, thus further attracting Japanese demand. As a result, the total sum of such applications surpassed the amount allocated in FY1952 foreign currency budget. However, only five days later, MITI announced the resumption of Automatic Approval of imports from the sterling area, though on a more restricted basis to exclude the commodities such as rubber and pig iron which were subject to speculative purchasing.¹²

Behind the government decision to avoid drastic curtailment of allocation of the foreign currency budget to sterling purchases lay the consideration to strengthen the price competitiveness of Japanese industrial goods by ensuring a stable supply of cheaper raw materials. MOF advocated reducing the sterling foreign currency budget on the grounds that import-export trade should be balanced in each currency as long as international trade was subject to tight exchange controls and there was a serious dollar shortage. MITI, on the other hand, argued against tightening import restrictions on the grounds that they might: (1) promote speculative sterling imports; (2) result in loss of sterling sources of strategic raw materials of good quality at competitive prices; (3) result in increased domestic prices, which would weaken the export competitiveness of the Japanese manufacturing industry

¹¹ ‘Ei no Taido ni Kakaru: Pondo Yunyu Jissai niwa Shukusho Yoso’ [Dependent on British approach: Sterling imports to be reduced], Nihon Keizai Shimbun, 12 March 1953.
currently undergoing rationalisation. In other words, Japanese government policy was based on a desire to improve the sterling trade imbalance by securing an abundant supply of cheaper raw materials from the sterling area and utilising them to strengthen the price competitiveness of Japanese export goods. This was similar to the ‘import-first’ policy of the Logan Plan, discussed in Chapter 2. The Logan Plan was designed to promote Japanese trade under the austere economic policy motivated by the Dodge Line. This time the Japanese government was also forced to introduce austere financial and fiscal measures to overcome the ongoing sterling shortage and the subsequent crisis in the balance of payments position.

**FINANCIAL RESTRAINTS TO OVERCOME THE CRISIS IN THE BALANCE OF PAYMENTS**

While the Japanese government refrained from introducing drastic controls on imports from the sterling area, Japan’s balance of payments position continued to deteriorate. As indicated in Table 9.2, Japan’s foreign currency balance in the clearing account began to decline from the beginning of 1953; Japan’s dollar position also deteriorated from the second half of the year. This was caused by a rapid increase in overall imports, which reached $1,135 million during the 1953 calendar year (CY) against $755 million during 1952. Compared with this strong import demand, the increase in exports was unimpressive, with total exports during CY1953 amounting to $1,275 million against $1,273 million during CY1952.

The crisis in the balance of payments alarmed Japanese officials. The Japanese government attributed the adverse trade imbalance to the inflationary effect of the increase in national income during the Korean War Boom. The 1953 issue of *Economic White Paper* put out by the Economic Deliberation Agency identified the domestic factors hampering export promotion. The prices of Japan’s heavy and chemical industrial goods were higher than those of other industrialised countries, due to high raw material costs, low labour productivity and the use of obsolete production equipment and facilities. The

---


remarkable economic recovery of the occupation period had provided the Japanese nation with high purchasing power and created an income effect, expanding domestic consumption of industrial products, at the expense of export promotion. The 1954 Economic White Paper also pointed to the increased purchasing power of the Japanese nation to explain the substantial increase in imports during 1953. Other factors mentioned were the poor food crop of 1952, traders' speculative reaction to low imports in the previous year, high domestic prices and the relaxation of import finance.

The remedy was to restrain domestic demand through austere financial and fiscal policies in the short term, and to strengthen the price competitiveness of the heavy and chemical industries through the implementation of rationalisation programs in the longer term. The option to improve the balance of payments position by devaluation of the yen was categorically rejected, since it would lift the import prices of strategic raw materials and foodstuffs. The price elasticity of exports was extremely low, because of tight exchange controls prevailing all over the world under the dollar shortage, and the IMF provisions imposed strict restrictions on margins of devaluation. The Japanese government thus introduced a series of restraint measures on import finance from October 1953 and strengthened them in the first half of 1954. Prime Minister Yoshida also showed strong leadership in keeping the government budget expenditure for FY1954 below ¥1,000 billion in January 1954.

The government's austere approach to the balance of payments crisis was justified in the 1954 Economic White Paper, which asserted that it was time to 'retreat a step backwards and consolidate'. Stressing the need for domestic demand to cool down so that

---

17 Sadao Takahashi, Okurasho Daijin Kanbo Chosaka [Research Division, Minister's Secretariat, Ministry of Finance (MOF)], 'Nihon Keizai no Kiki wa Dokoni Aruka: An'ina Kotosaku dewa Sukuwarenai' [Where is the cause of the crisis of the Japanese economy?: No solution through an easy patch-up measure], Gaikoku Kawase, no.92, 1 April 1954, p.4.
18 These restraint measures included suspension of the handling of import settlement bills for non-essential items, shortening of the settlement period of import bills, and abolition of financial measures to promote import expansion to tackle the excessive sterling accumulation from 1952. 'Kokusai Shushi no Kiki wa Sattaka' [Has the balance of payments crisis gone?], Ekononisuto, vol.32, no.50, 11 December 1954, p.26.
capital could be accumulated and mobilised for increased productivity of the heavy and chemical industry, the 1954 issue asserted in conclusion:

There is no short cut in capital accumulation. There is no alternative but to wait for saving of consumption by the nation unless we are to depend on foreign aid (my emphasis).

This observation has two implications for the trade strategy. Firstly, 'no short cut' means that it would take time for the heavy and chemical industrial sectors to become competitive enough to rival their counterparts in industrialised countries and become Japan's central export earners. How could Japan sustain its balance of payments in the meantime, faced with the stern reality of the diminishing US special procurement now that the Korean War was over? Secondly, the alternative to 'depend on foreign aid' was still open to the Japanese. This encouraged Japanese government and business circles to look forward to the re-emergence of the US-Japan Economic Cooperation Program, which had once held so much promise, as discussed in Chapter 7.

In July 1953, the Japanese government entered into negotiations to receive US aid under the Mutual Security Act (MSA). The MSA enabled the US administration to offer non-Communist countries military aid to prevent Communist infiltration, on the condition that recipient countries cooperated with US-led collective security programs and strengthened their own defence capability. The ceasefire in Korea was being negotiated, and it was obvious that special procurement would dwindle. Hence, Japanese business circles welcomed MSA aid as an alternative source of extra dollar supply.

In mid July, the Federation of Economic Organisations (Keidanren), the association of Japan's large business corporations, issued an official request for the MSA aid. What Keidanren wanted was to obtain not only purely military assistance but also economic aid for national development. In other words, Japanese business aimed to secure a source of extra dollar supply on a more permanent basis to substitute for special procurement. Keidanren's official request ran as follows.

Our balance of payments has kept just in balance thanks to special procurement worth in the order of more than $800 million, so we have not reached a level of complete self-reliance. Therefore, if we could receive special procurement on a regular basis through MSA programs as a temporary measure until we can fulfill

---

the long-term plans for economic self-reliance centred on normal trade, MSA aid will contribute towards establishing the foundation for our industrial production and strengthening our international competitiveness in the future. In this sense, we strongly expect that MSA aid should not be limited to military assistance, including offshore procurement for the US Army, but that, at the same time, it should take the form of defence support aid, contributing towards securing essential materials, technological improvement and modernisation of production facilities.\(^{21}\)

In particular, Keidanren requested that US aid and offshore procurement be provided ‘on a planned regular basis’ to contribute towards modernisation not only of the military industry but also of the heavy and chemical industries, ‘which should be the axis of our industry in the future’. Japanese business circles also hoped that the United States would explore the possibility of active procurement of Japanese industrial goods when granting MSA aid to non-Communist countries in Asia.\(^{22}\) These requests reflected the hopes held for the earlier US-Japan Economic Cooperation Program in 1950–51.

Japanese government and business circles had targeted the heavy and chemical industries as Japan’s main future export earners. These sectors were still in the process of rationalisation and had yet to strengthen their competitive edge. Moreover, the Asian non-Communist countries which were expected to substitute for Japan’s traditional Chinese export market lacked adequate purchasing power. The easiest way to overcome this predicament was to secure extra dollar supplies through MSA aid. While arguing that Japan would meet the suggested guidelines of the MSA program, in view of its ‘international stand as one of the members of the free world’, Japanese business circles tried to capitalise on the US military aid program for their own purpose: facilitating the tough task of achieving economic self-reliance.\(^{23}\)

The Japanese government shared business expectations for overall economic aid. Yasuhara points out that without fully understanding the MSA provisions, the Japanese government held the naive belief that it would be able to obtain US economic aid while evading pressure to strengthen the Japanese military capability to which the public was

---

21 Keizai Dantai Rengokai [Japan Employers’ Federation], ‘MSA Ukeire ni kansuru Ippanteki Yobo Iken’ [General requests on the MSA], Keidanren Geppo, vol.1, no.8, August 1953, p.42.
22 Ibid.
23 Ibid.
vehemently opposed. The US administration under President Dwight Eisenhower was not prepared to concede such economic aid and flatly rejected the Japanese proposal, thus shattering Japan’s naive hopes. Even when the prospects for economic aid looked extremely bleak, the Japanese Foreign Minister, Katsuo Okazaki, revealed the strength of the government’s attachment, by stating that it was too early to give up hope and that there was no change in the government policy to pursue US economic aid in the negotiations.

In the October talks led by Walter Robertson, head of the Far East Division of the US State Department, and Hayato Ikeda, former Japanese Minister for Finance, however, it became clear that all Japan could expect to gain was surplus disposal of US agricultural products equivalent to $50 million based on Section 550 of the MSA. Under the surplus disposal program, Japan could obtain US surplus wheat with payment to be made in yen. This yen remittance was to be pooled in Japan as a fund, only a part of which would be granted to Japan, and a large part of which was to be used for the military procurement by the US forces in Japan. This was far from the kind of aid which the Japanese had in mind.

On the contrary, there was concern that Japan’s dollar position would deteriorate if a large part of the US military procurement in Japan was not paid in dollars but financed from the yen fund for surplus disposal. Although the United States pledged offshore procurement orders worth $100 million in the Mutual Defense Assistance Agreements concluded in March 1954, this figure included financing from the surplus disposal yen fund in the order of $40 million. In fact the US procurement record amounted to only $70 million in USFY1954, to the great disappointment of the Japanese government.

Japan’s naive hopes for extra dollar supply through the MSA program were thus completely shattered. This confirmed yet again that there was no way left for Japan but to achieve economic self-reliance through promotion of exports on a normal commercial basis,

---


25 ‘Keizai Enjo wo Akiramezu’ [We will not give up economic aid], Nihon Keizai Shimbun, 3 August 1953.


27 Yasuhara, 1988, p.165.
while maintaining its rationalisation efforts, by making the most of the gradually dwindling US offshore procurement. It is noteworthy that the MSA negotiations obliged Japan to commit itself to tightening inflationary policy and concentrating on export promotion.

Sakamoto emphasises that in the Ikeda-Robertson talks the US administration put strong pressure on Japan's former Minister for Finance to adjust Japan's economic policy so as to stabilise inflation and tackle the crisis in the balance of payments position. In Washington, Ikeda was blamed by Joseph Dodge for Japan's failure to utilise the 'windfall' profits' obtained from special procurements effectively, and Dodge strongly urged Japan to shift its economic policy towards curtailment of imports and promotion of exports through austere fiscal restraints and self-help efforts. Sakamoto argues that Dodge's advice strengthened Prime Minister Shigeru Yoshida's determination to introduce austere fiscal and monetary policies from late 1953. Yoshida himself later revealed that when he made the decision to cut budget expenditure in late 1953, he had felt the same way as he had on the occasion of the implementation of the Dodge Line in 1949. In 1949, SCAP had adopted a trade policy of diverting trade into non-dollar sources, expanding the networks of bilateral trade and payments agreements, and restoring normal private trade, in response to the Logan Plan. The Japanese government now adopted a similar policy of promoting trade on a normal commercial basis without counting on special procurement.

THE SIGNIFICANCE OF ECONOMIC DIPLOMACY IN PLACING TRADE ON A MORE MULTILATERAL BASIS

The volatile fluctuations in the sterling balance made it imperative for the Japanese government to shift the weight of its trade policy from dependence on extra dollar supply to promotion of trade on a normal commercial basis in the first half of the 1950s. The excessive sterling accumulation in 1951-52 highlighted the importance of expanding imports from the sterling area. Declining special procurement along with the unsatisfactory outcome of the MSA negotiations forced Japan to recognise the increasing need to divert purchases into non-dollar channels to save dollars. In order to secure adequate financing of

29 Ibid., pp.42-45.
purchases from these sources when the balance of payments deteriorated in 1953–54, Japan had to rely on economic diplomacy to achieve a relaxation of the tight import controls, especially in the sterling area.

In May 1952, the Policy Coordination Division of MITI’s Minister’s Secretariat emphasised trade promotion in Southeast Asia as a central trade strategy for Japan after the Peace Settlement. This proposal was based on the optimistic premise that the existing decline in trade caused by the tightening of import licensing by the sterling area and the decrease in special procurement was just a temporary setback. This premise derived from the observation that the worldwide trend to increase military production would continue as a result of the Cold War, regardless of the outcome of the Korean War, so that the sterling area countries would be forced to relax their import licensing to secure supplies of essential Japanese goods. 31 This thinking lay behind MITI’s opposition to restraints on export finance, proposed by the FECB in February.

In a document in August, however, MITI outlined its belief that world trade might follow a declining trend. The tightening of import licensing by the sterling area countries from March, together with the active exports to Southeast Asia by West European countries and the decline in special procurement, began to affect Japanese exports badly and foreshadowed the deterioration of the balance of payments position. MITI also admitted that it was necessary to develop a ‘comprehensive policy encompassing diplomatic and cultural aspects’ to resolve the highly political problems of reparation before Japan would be able to promote trade with Southeast Asia. Hence, the Ministry advocated implementation of the US-Japan Economic Cooperation Program centred on the ‘special procurement in a broader sense’ in that it would not be confined to military procurement. 32 The emergence of a call for ‘broader’ special procurement was also in line with Japan’s

31 Tshushosangyosho Daijin Kambo Somuka [Policy Coordination Division, Minister’s Secretariat, MITI], ‘Kowago no Tsusho Sangyo Taisaku no Hoko’ [The direction of international trade and industry policy after the peace settlement], 29 May 1952, cited in Haruhito Takeda, ‘Jiritsu kara Seicho he’ [From self-reliance to economic growth], Tsushosangyosho Tsusho Sangyo Seisakushi Hensan Inkai [Committee for the history of international trade policy, MITI], ed., 1989, Tsusho Sangyo Seisakushi, Dai-5-kan: Dai-2-ki, Jiritsu Kiban Kakuritsuki(l) [The history of international trade policy, volume 5: Second period for economic self-reliance, no.1], Tsusho Sangyo Chosakai, 1989, chapter 1, p.74. This book is part of a series of an official history of the MITI. Takeda’s chapter intensively cites internal documents of the Ministry.

quest for overall economic aid in the MSA negotiations with the United States, as mentioned previously.

When the sterling shortage worsened and it became obvious that special procurement was dwindling rapidly, MITI started to emphasise economic diplomacy to secure every possible export market for Japanese goods. It also advocated diverting imports to non-dollar suppliers. The November document specifically pointed out the need to promote the early conclusion of the Treaties of Commerce and Navigation, Trade Agreements, a revised Anglo-Japanese Payments Agreement, and Japan's membership to the GATT. The government's interest in these initiatives as a means of promoting exports reflects a shift from its earlier position to give higher priority to the prevention of sterling accumulation than to the establishment of an institutional framework of trade relations, as discussed in Chapter 7.

In 1953, when the government and business circles hoped to secure a new source of dollar supply through the MSA program, plans emerged within the MITI to lay more stress on export promotion than on special procurement. In the document of April 1953, when a ceasefire in Korea appeared imminent following the death of Josef Stalin in March, MITI dropped further promotion of special procurement from its nine main trade policy objectives while nominating export promotion as the first objective. Special procurement was excluded from the list in view of the past tendency to attribute difficulties in export promotion to the decline in special procurement. This again indicates that Japan realised it had little alternative but to expand trade on a normal commercial basis, and for this purpose to adopt a strategy to facilitate trade on a more multilateral basis. Although Japan's future trade was to centre on heavy and chemical industry exports to developing countries in Asia, MITI categorically rejected such drastic interventionist measures as export subsidies and devaluation of the yen, on the grounds that while they would only provide temporary relief, they could affect external relations and hamper the industrial

33 Tsushosangyosho, 'Tsusho Sangyo Seisaku no Kihon Hoshin' [Basic strategy of the international trade and industry policy], 8 November 1952, cited in Takeda, 1989, p.82.
35 Tsushosangyosho, 'Shogi Gijiroku' [The minutes of the Ministry meeting], 8 April 1953, cited in Takeda, 1989, p.93.
rationalisation process. Hence, all that was recommended to promote exports was such measures as strengthening commercial firms and expanding the import-export link system. This was to be introduced to overcome the shortage of sterling balance and affected Australia’s wool sales to Japan.\(^{36}\)

These policy considerations implied the increasing significance to Japan of economic diplomacy. Although the Japanese government worked out a long-term strategy to promote heavy and chemical industrial exports to Asian developing countries, it would be some time before Japan’s heavy and chemical industries were able to compete with their Western rivals. As well, until the reparation negotiations were settled, Asian countries did not have purchasing power to obtain Japanese goods. With the interventionist approach rejected, the most effective measure to achieve export promotion and overcome the crisis in the balance of payments within a short period was to persuade trading partners to relax import restrictions imposed on Japan’s competitive industrial goods in overseas markets. These were the background factors which highlighted the significance of the economic diplomacy during the first half of the 1950s.

As the MSA negotiations proved, Japan could not count on US aid to overcome the crisis in the balance of payments, and economic diplomacy became more salient in Japan’s trade strategy. In December 1953, Kiyohide Okano, who held the dual portfolios of Minister for International Trade and Industry and Director-General of the Economic Deliberation Agency, presented his program for achieving economic self-reliance. This so-called Okano Plan envisaged three goals: to improve the balance of payments position ‘through normal trade as much as possible’; to accomplish this goal while Japan could still count on a high level of extra dollar supply; and to increase the levels of exports and domestic self-sufficiency. The measures to be adopted to achieve these goals were increased exports through promotion of economic diplomacy and the strengthening of economic cooperation with Southeast Asian countries through reparation agreements. The Okano Plan was distinct from previous plans for economic self-reliance in stressing not only the rationalisation of the heavy and chemical industries but also diplomatic approaches to open Japan’s export markets. Miyazaki says that the main significance of the Okano Plan was

that it confirmed that, in view of the diminishing special procurement, the Japanese had no other alternative but to pursue export promotion independently.  

In fact, the 1954 issue of *Trade White Paper* asserted that there was considerable room for economic diplomacy in attempts to overcome existing bottlenecks. These included the international network of trade discrimination against Japan, the limited convertibility of currencies, uncompetitive basic industries, weak commercial firms and lack of marketing effort. MOF also expressed its strong commitment to economic diplomacy, arguing that Japan had no alternative but to sustain production levels through export promotion if it was to achieve the national objective of attaining economic growth without inviting inflation, and that ‘for this purpose it was a must to push economic diplomacy forward in a vigorous manner to achieve removal of tarriff barriers and to relax import restrictions’. Thus, the crisis in the balance of payments in 1953–53 urged the Japanese government to concentrate on an ‘export first’ trade strategy in which economic diplomacy had a significant role.

The Japanese diplomatic effort during the first half of the 1950s was significant. Japan succeeded in opening North American markets through an exchange of most-favoured-nation treatment when it concluded the Treaty of Friendship, Commerce and Navigation with the United States in April 1953 and the Commerce Agreement with Canada in March 1954. Japan also secured membership in the IMF in May 1952 and provisional membership in the GATT in October 1953, and became a formal contracting party in September 1955. Further promotion of the liberal institutional framework for trade relations remained the ultimate objective of Japan’s economic diplomacy in the second half of the 1950s and the early 1960s. In particular, since the fourteen contracting parties refused to enter normal GATT relations with Japan by retaining GATT Article XXXV in 1955, the onus of Japan’s economic diplomacy was to remove trade discrimination by negotiating bilateral treaties or agreements of commerce and navigation with these countries.

---

Apart from the goal of establishing an institutional framework for freer trade relations, economic diplomacy in the first half of the 1950s had another important objective. In order to bring about immediate improvement of the crisis in the balance of payments in 1953-54, Japan had to concentrate on export promotion. With the convertibility of currencies yet to be restored, import licensing for exchange control had far more restrictive effects than tariff barriers in the non-dollar area countries. If Japan was to improve its adverse trade imbalance with these countries, it had to aim to increase its exports within the framework of the existing bilateral payments and trade agreements. In fact, the official history of postwar Japanese diplomacy by the Ministry of Foreign Affairs defines the period from 1952 to 1956 as one of consolidation of trade relations through bilateral trade and payments agreements.40

This perspective gives weight to the significance of promoting economic diplomacy in the sterling area. The 1951 Sterling Payments Agreement was the most important payments agreement for Japan, because it provided the institutional framework for a flourishing non-dollar trade by introducing the principle of multilateral settlement with the whole sterling area through the removal of the dollar convertibility clause. In fact, Japan's sterling trade showed remarkable growth from late 1951 to 1952. The tightening of import licensing by the sterling area countries from March 1952 then brought about a huge sterling shortage for Japan and triggered the crisis in the balance of payments in 1953-54. Here it became imperative for the Japanese authorities to negotiate a relaxation of import restrictions. The president of one Japanese firm observed that Japan's exports to the sterling area countries would increase considerably if import licensing was relaxed.41 In particular, attributing the substantial fall in exports of competitive textiles to the sterling area to import restrictions, Keidanren urged the relaxation of import licensing through diplomatic approaches.42 MITI officials also advocated economic diplomacy and improvement of the price competitiveness of the heavy and chemical industries as the most effective remedies to overcome the crisis in the balance of payments.43

40 Hagiwara, 1972, p.226.
41 'Pondo no Kokansei Kaifuku to Nihon no Boeki' [Restoration of the convertibility of the pound and Japan's trade], *Keidanren Geppo*, vol.1, no.5, May 1953, p.19.
42 Keidanren, Jimukyoku, 'Pondomuke Yushutsu no Fushin to Dakai no Hoko' [The stagnation of sterling exports and its improvement], *Keidanren Geppo*, vol.1, no.12, December 1953, p.39.
43 Yoshie Imai (Chief, International Trade Policy Division, International Trade Bureau), 'Kongo no Nichi-
Such diplomatic approaches had to be made multilaterally, in that Japan’s sterling trade was already being conducted on a more multilateral basis. Although the United Kingdom took sole responsibility for the 1951 Payments Agreement negotiations with Japan, the new Agreement deprived London of its control over trade between the whole sterling area and Japan. Since the need for strict balancing of trade was dissipated, independent British Commonwealth countries, such as Australia, India and New Zealand, controlled their own bilateral trade with Japan. Japan thus had to develop diplomatic channels not only with the United Kingdom but also with these individual sterling area countries in order to correct the sterling shortage. It was in this context that Australia emerged as an important target for Japan’s economic diplomacy.

JAPANESE ECONOMIC DIPLOMACY TOWARDS AUSTRALIA

Along with the establishment of a strategy to promote trade with non-dollar area countries, the Japanese government used economic diplomacy to overcome the crisis in the balance of payments in 1953–54. The Anglo-Japanese trade and payments talks were held in London from December 1953 to find a solution to Japan’s serious sterling shortage and to discuss renewal of the Sterling Payments Agreement, which was due to expire at the end of the year. The negotiations were finalised on 29 January 1954 with the Payments Agreement being extended for one year. A Trade Plan was set out to secure expansion of Japan’s sterling exports, which had dropped considerably since the previous year. The Trade Plan estimated Japanese annual exports to the United Kingdom at £14.5 million, to its colonies at £91.5 million, and to individual independent sterling area countries such as the dominions at £92.5 million. Imports from the respective parties were estimated at £16 million, £32.5 million and £135 million. The Plan was expected to contribute towards offsetting Japan’s sterling deficit of £109 million during 1953.44

It was doubtful, however, whether the Anglo-Japanese Trade Plan would be effective in improving Japan’s serious sterling shortage. Although the United Kingdom and its

---

colonies agreed to issue import licences for Japanese goods up to the amounts prescribed in the Plan, the figures for independent sterling area countries were merely estimates. Thus, no guarantee was given that these countries, which accounted for almost half of total estimated Japanese exports in the Trade Plan, would also relax import licensing. Furthermore, exports to these destinations seemed to be overestimated, with the figures inflated from the 1953 record by 70 per cent.\textsuperscript{45} Unless the independent sterling area countries, including Australia, were prepared to open their markets to Japanese goods, Japan could not hope for much improvement in the sterling balance. The president of one firm in the textile industry, which had suffered a sharp drop in sterling exports, strongly advocated further negotiations with the independent sterling area countries.\textsuperscript{46}

While Japan entered into trade talks with several sterling area countries, Australia was by far the most important target of its diplomatic efforts.\textsuperscript{47} Table 9.3 clearly shows the salience of Australia's tight import restrictions against Japanese goods. Australia was by far Japan's largest supplier within the sterling area in 1953, when Japan was slow in regulating its imports for the reasons already explained. On the other hand, Japan's exports to Australia had fallen by two-thirds over the 1952 figure. As a result, Australia's share in total imports of Japanese goods by the whole sterling area in 1953 shrunk to only 2.8 per cent. These figures indicate how tightly Australia imposed import controls on the inflow of Japanese goods. The resultant Japanese bilateral trade deficit of $163 million (£58 million) accounted for more than half of Japan's total deficit in sterling trade in that year.

Japan's first diplomatic approach to Australia was made in November 1952. On this occasion the Japanese Ministry of Foreign Affairs simply tried to draw Canberra's attention to Japan's concern about Australia's tight import restrictions, taking the opportunity to express Japan's appreciation for the long-term barley purchase contract, as already explained in Chapter 8. In 1953, Japanese diplomatic approaches shifted in tone, to reflect the growing seriousness of the sterling shortage problem.

\textsuperscript{45} Ibid., pp.4-5.
\textsuperscript{46} Kojiro Abe (President, Toyo Spinning Company), 'Nichi-Ei Boeki Shiharai Kyotei to Pondo Boeki Tenkai ni tsuite' [On the Anglo-Japanese Payments and Trade Agreement and the development of sterling trade], \textit{Keizaijin}, vol.8, no.4, April 1954, p.10.
\textsuperscript{47} The Trade Arrangements were concluded with Pakistan in April and with Burma in December 1953.
Table 9.3  Japan’s Trade with the Sterling Area Countries, 1953

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>33.1</td>
<td>49.1</td>
<td>-16.0</td>
</tr>
<tr>
<td>Aden</td>
<td>3.9</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Hongkong</td>
<td>62.2</td>
<td>7.9</td>
<td>54.3</td>
</tr>
<tr>
<td>Malaya</td>
<td>7.4</td>
<td>50.4</td>
<td>-43.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>32.1</td>
<td>13.0</td>
<td>19.1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>11.6</td>
<td>0.2</td>
<td>11.4</td>
</tr>
<tr>
<td>East Africa</td>
<td>0.9</td>
<td>4.7</td>
<td>-3.8</td>
</tr>
<tr>
<td>Australia</td>
<td>9.0</td>
<td>172.3</td>
<td>-163.3</td>
</tr>
<tr>
<td>Ceylon</td>
<td>13.9</td>
<td>2.2</td>
<td>12.7</td>
</tr>
<tr>
<td>Burma</td>
<td>33.1</td>
<td>50.2</td>
<td>-17.1</td>
</tr>
<tr>
<td>India</td>
<td>27.4</td>
<td>75.1</td>
<td>-47.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>14.9</td>
<td>108.0</td>
<td>-93.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.4</td>
<td>9.8</td>
<td>-8.4</td>
</tr>
<tr>
<td>South Africa</td>
<td>28.2</td>
<td>19.6</td>
<td>8.6</td>
</tr>
<tr>
<td>Others</td>
<td>38.3</td>
<td>38.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>317.4</td>
<td>602.6</td>
<td>-284.8</td>
</tr>
</tbody>
</table>

*Source: Keizai Kikakucho, 1962, p.181.*

In a Note Verbale dated 12 May, the Japanese government requested relaxation of Australia’s import restrictions, pointing out that Japanese exports to Australia during the second half of 1952 amounted to only one-tenth of its imports from Australia. Despite the soft currency settlement agreed to in the Sterling Payments Agreement and the rapid improvement in its balance of payments, Canberra had imposed tight import restrictions against Japanese goods since March 1952, maintaining Japan’s treatment as a hard currency source. Hence, Japan issued a warning that it might be forced to ‘taper off her imports from the Sterling Area’, unless the downward trend of Japanese exports improved dramatically. This document indicates that Australia’s hard currency treatment of Japanese imports was singled out as a target of the Japanese diplomatic approach to Canberra.

Australia’s initial response to Japan’s harsher request was a gradual and small scale relaxation of import licensing. In July 1953, Canberra replied that it had implemented

---

partial moderation of import licensing on Japanese goods in January–March and in April–June quarters and that it was prepared to issue licensing on 24 items including cotton piece goods. However, the Australian government asserted that this relaxation was the maximum possible concession and found no necessity to agree to informal trade talks as the Japanese had proposed.\(^{49}\)

Canberra's approach was based on the assumption that Japan was bluffing in threatening to curtail purchases from Australia. At the end of August, MITI issued an official statement setting out the Japanese intention to reduce purchases of Australian wool during the period from October to March and to increase imports of Argentinian wool. This was the first time that the Japanese government specifically referred to a diversion of wool imports from Australia to Argentina. Canberra regarded the statement as giving 'only a preliminary indication' of the Japanese intention, in view of MITI's previous policy of not imposing restrictions on imports from the sterling area as a measure to improve the trade imbalance.\(^{50}\) However, the MITI statement was timely, and Canberra soon decided to increase the total amount of import licences issued for Japanese goods from £12 million to £18 million annually, and to widen the range of items to be licensed.\(^{51}\) Australian government officials were clearly concerned that Japan's sterling shortage could affect Australia's wool sales.\(^{52}\)

Since these corrective measures included neither Japan's soft currency treatment nor an increase in exports, the Japanese government again requested a relaxation of import licensing in stronger terms in November. Tokyo argued that Japan's bilateral deficit with Australia from January to August was almost equivalent to the decrease in its sterling balance during the same period. Now that Australia's import restrictions had proved to be the largest single factor affecting Japan's serious sterling shortage, the Japanese government did not hesitate to warn Australia:

... the Japanese Government fear that unless measures be expeditiously taken on the part of the Australian Government of arresting the deteriorating tendency, the

\(^{49}\) Australian Embassy in Tokyo to MFA, 'Note Verbale', no.131, 22 July 1953, ibid., pp.5-10.


\(^{51}\) Cabinet Minute, Australia, 'Trade with Japan', Decision no.833, Submission no.542, 2 September 1953, ibid.

\(^{52}\) Cable from Canberra to the Australian Embassy in Tokyo, no.368, 14 September 1953, ibid.
Japanese Government might find itself unable to continue imports from Australia on the pace and scale as in the past periods.\textsuperscript{53}

Although the May warning had referred to the possibility of decreasing purchases from the entire sterling area, this time Japan did not conceal its intention to specifically target Australia.

**CURTAILMENT OF JAPANESE PURCHASES OF AUSTRALIAN WOOL**

The Japanese meant what they said. From 1953 to 1954, Japan introduced measures to divert imports from the sterling area to other non-dollar areas. Combined with the effects of Japan’s financial restraints, these measures caused Australian sales to Japan to fall. Wool, which was the main trading item not only in Australia-Japan bilateral trade but also in Japan’s entire sterling trade, was worst affected.

After the Japanese import trade system was handed over to private channels in January 1950, Japan’s wool purchases were regulated by the foreign currency allocation system. From September 1951, the sterling accumulation had raised the allocation of the foreign currency budget to imports of wool from the sterling area, and Japanese wool importers rushed into the Australian market. As a result, Japanese wool purchases in 1952 not only almost doubled those in 1950, but the Australian share reached its prewar level of 85 per cent. Active Japanese purchases led Australian officials to observe that the Japanese presence at wool auctions sustained market prices and that Japanese bidding had become an important factor in wool price setting for the first time in the postwar period.\textsuperscript{54}

Although the downward trend in Japan’s sterling balance from late 1952 did not affect its total wool imports in 1953, Japan gradually began to squeeze out Australian wool. Table 9.4 shows that total wool purchases in 1953 actually increased by 23 per cent over the previous year. At this stage Japan’s foreign currency allocation had not been affected by the sterling shortage, reflecting its trade policy of securing an adequate supply of raw materials. Yet purchases from Australia were kept at almost the same level as in 1952. Most of the increase in total wool imports came from Argentina. In 1954, Japan’s


\textsuperscript{54} J.G. Crawford, Secretary, DCA to Commercial Counsellor, AM, 3 April 1952, AA, A609, 317/20/6.
deflationary policy and the reduction in its foreign currency budget, together with the abundant wool stock acquired in the previous year, lowered its total purchases by 13 per cent. Australia was hardest hit, with wool sales falling by nearly 30 per cent. Its share in Japanese wool imports plunged to 62 per cent, the lowest since 1948 when the Draper coordination system was introduced. Argentinian wool was also cut, but by the average ratio of 13 per cent.

Table 9.4  Postwar Japanese Wool Imports, 1947–55

<table>
<thead>
<tr>
<th>Year</th>
<th>Aust</th>
<th>%</th>
<th>NZ</th>
<th>SA</th>
<th>Arg</th>
<th>Urg</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>34–36</td>
<td>56,156</td>
<td>84.4</td>
<td>3,703</td>
<td>3,009</td>
<td>1,692</td>
<td>984</td>
<td>66,540</td>
</tr>
<tr>
<td>1947</td>
<td>728</td>
<td>96.6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>754</td>
</tr>
<tr>
<td>1948</td>
<td>7,276</td>
<td>42.1</td>
<td>41</td>
<td>1,948</td>
<td>7,115</td>
<td>423</td>
<td>17,268</td>
</tr>
<tr>
<td>1949</td>
<td>18,840</td>
<td>74.9</td>
<td>2,845</td>
<td>3,151</td>
<td>0</td>
<td>0</td>
<td>25,140</td>
</tr>
<tr>
<td>1950</td>
<td>49,491</td>
<td>83.4</td>
<td>2,015</td>
<td>1,459</td>
<td>1,743</td>
<td>3,387</td>
<td>59,339</td>
</tr>
<tr>
<td>1951</td>
<td>121,042</td>
<td>61.7</td>
<td>9,758</td>
<td>1,832</td>
<td>16,505</td>
<td>4,237</td>
<td>196,121</td>
</tr>
<tr>
<td>1952</td>
<td>118,034</td>
<td>85.1</td>
<td>2,891</td>
<td>9,302</td>
<td>1,933</td>
<td>1,620</td>
<td>138,664</td>
</tr>
<tr>
<td>1953</td>
<td>128,229</td>
<td>75.6</td>
<td>3,733</td>
<td>14,487</td>
<td>24,079</td>
<td>10,119</td>
<td>169,597</td>
</tr>
<tr>
<td>1954</td>
<td>92,058</td>
<td>62.6</td>
<td>1,842</td>
<td>6,073</td>
<td>20,736</td>
<td>5,850</td>
<td>147,065</td>
</tr>
<tr>
<td>1955</td>
<td>122,351</td>
<td>80.1</td>
<td>3,624</td>
<td>8,547</td>
<td>10,326</td>
<td>3,814</td>
<td>152,671</td>
</tr>
</tbody>
</table>

Notes:  

a: Australia; b: Australia’s share in the total Japanese imports; c: New Zealand;  
d: South Africa; e: Argentina; f: Uruguay; g: Annual averages, 1934–36.

Source: Tsushosangyosho Tsushokyoku Tsushochosaka, 1956, pp.262-263.

The increase in imports of Argentinian wool was a purposeful act by the Japanese government. Interventionist measures had been ruled out in view of the unfavourable effects these might have on the industrial rationalisation program. Import restrictions could cause a shortage of raw materials, thus strengthening inflationary pressure and contradicting the principles of freer trade under the Bretton-Woods system. With options limited, Japan

---

55 Australia's low share in 1951 did not reflect the actual shape of Japanese wool imports. Australia's share in quantity amounted to 73.5 per cent from September 1950 to August 1951, and 86.9 per cent from September 1951 to August 1952. Thus Australia's 61.7 per cent share in terms of value seems to have been caused by higher prices from other sources, particularly Argentina. The poor crop due to the drought in 1951 and the introduction of sales tax and floor prices on wool exports by the Argentinian government tended to push Argentinian wool prices above international market prices by 25 per cent. Kanematsu Yomo Nempo, no.21, 1951-52, pp.334-337.
was, in fact, not averse to diverting purchases from the sterling area to other sources which were prepared to import more Japanese goods. In fact, one MITI official — and MITI had been the strongest advocate for maintaining the overall import level — supported diversion of purchases from the sterling area into the open account countries as the handiest and most appropriate remedy for the sterling shortage. This, it was argued, might strengthen Japan’s bargaining position in trade talks with the individual sterling area countries, particularly suppliers of commodities such as Australia. 56

In order to promote diversion of wool purchases into the open account sources, Japan concluded a new Trade Arrangement with Argentina in April 1953. This included a Trade Plan outlining a $20 million Japanese wool purchase for that year. 57 Although purchases of Argentinian wool did not increase as expected due to price hikes, Japan and Argentina entered into a barter arrangement in September, the so-called ‘combination deal’ contract, in which the two countries were to exchange $40 million worth of wheat and wool for the equivalent amount of steel. Argentina also agreed to apply a preferential exchange rate, which would have the effect of lowering the purchase price of dearer Argentinian wool. 58 The merit of increased wool purchases from Argentina did not lie in the quality and price of its wool but in the export opportunities for Japanese steel. With the deteriorating balance of payments position, Japan desperately needed export contracts. In fact, from August, MITI intensified the link system whereby a certain export achievement in woollen products was required when a producer applied for foreign currency to finance purchases of raw wool. 59 In this context, Argentina remained the ‘sole promising market which was left for Japan under the bleak reality of stagnant exports’. 60 As a result, Argentina emerged as the largest customer of Japanese steel in terms of quantity in 1953. With another ‘combination

57 Toshio Nakamura, Tsusansho Tsushokyoku Dai 2-ka [Second Division], ‘Nichi-A Shintsusho Kyotei ni tsuite’ [On the new Japan-Argentina Trade Arrangement], Gaikoku Kawase, no.73, 1 June 1953, pp.39-40.
59 Kanematsu Yomo Nempo, no.23, 1953-54, pp.267-269. The link system was not welcomed by the woollen industry, since it tended to promote exports at discounted prices, which squeezed the financial conditions of the mills.
60 Nakamura, 1953, p.41.
deal’ concluded in May 1954, Argentina consolidated its position as Japan’s largest steel export market in 1954–55.61

The Japanese wool textile industry had mixed feelings about the diversion of wool imports to Argentina. Despite the application of the preferential exchange rate, Argentinian wool was expensive and its quality poor. However, the wool textile industry was in a position where it could not justify increased allocation of the foreign currency budget. Japanese wool textiles were traditionally produced for domestic consumption, although the industry depended on overseas supply for most raw materials. Moreover, Manchuria and Korea, the largest export markets in the prewar period, had been virtually closed. Although the wool industry expressed its strong dissatisfaction,62 it had no alternative but to accept the curtailment of wool purchases from Australia. To maintain their operation level, the wool mills were forced to utilise available raw wool, however coarse its quality. The mills concentrated their efforts on research into Argentinian wool, which they found was fit for production of yarn for hand-knitting. Ultimately, the leaders of the industry acknowledged the benefits of the ‘combination deals’ with Argentina.63

The Japanese diversion of wool imports alarmed Australian government officials. C.J. Carne, Australian Commercial Counsellor in Tokyo, reported the Japanese move to Canberra:

The Japanese seem prepared to adopt almost any device which will gain trade—barter, triangular deals, incentive schemes, link systems, permission to traffic in licences, etc ... Whatever the reasons, Australia has made little effort to redress the imbalanced trade between herself and Japan and the latter cannot be expected to be patient for ever.64

J.G. Crawford, Secretary of the Department of Commerce and Agriculture and one of the architects of the 1957 Commerce Agreement, shared Carne’s alarm at the further curtailment of wool sales to Japan. He was particularly concerned about the effect of falling prices, which might cause a reversal in Australia’s balance of payments. Crawford outlined

62 Miyoji Ueno, ‘Gemmo Yunyu Seigen to Kesei hin no Kyoko Yushutsu nitsuite’ [The import restrictions on raw wool and the forced exports of woollen products], Yomo, September 1953, pp.8-10; Renzo Ito, ‘Gemmo no Yunyu Yokuatsu wa Gusaku’ [The import regulation of raw wool is folly], Yomo, November 1953, pp.7-8.
his determination to press the government for remedial action.\textsuperscript{65} Crawford was also mindful of the total Japanese embargo placed on Australian wool in 1936 in retaliation for its Trade Diversion Policy, which had adopted higher tariffs on Japanese cotton and artificial silk piece goods. He advised his Minister, ‘[O]n our pre-war experience Japan might be expected to react against discriminatory trade measures, if she had opportunities of doing so, by turning to other sources of supply’.\textsuperscript{66}

In the event, Australia made a decision important in the history of the postwar Australia-Japan trade relations in November 1954. On 17 November, the Australian government conveyed its readiness to enter into trade talks with Japan. More significantly, two days later, Canberra announced the relaxation of import licensing. Japan was given soft currency treatment with the exception of 36 items, including cotton and artificial silk piece goods and toys.\textsuperscript{67} This was an important breakthrough in postwar trade between Australia and Japan. From March 1952 to February 1960, Australia’s control of import trade had been implemented mainly by import licensing under the discretion of the Department of Trade and Customs, in order to safeguard the balance of payments. Although the government said that import licensing was a temporary measure, its effect on domestic industrial protection was more profound than that of tariffs.\textsuperscript{68} The granting of soft currency status heralded a near normalisation of Australia-Japan trade relations, with Japanese goods enjoying virtually the same treatment as those from the United Kingdom and other sterling area countries in Australia’s import controls.

The success of the Sterling Payments Agreement in expanding sterling trade under the multilateral settlement system further committed Japan to a strategy to promote trade on a normal commercial basis, more multilaterally, without dependence on extra dollar supply. Even in the event of the serious sterling shortage caused by the tightening of import licensing by the sterling area countries in 1953, Japan was slow to restrain its imports from the sterling area, since commodities from this source were cheap enough to sustain

\textsuperscript{65} Crawford to Carne, 8 April 1954, \textit{ibid.}
\textsuperscript{67} Gaimusho Keizaikyoku Dai 4-ka, 1957, p.13.
production of Japanese goods at competitive prices. The government strategy was to strengthen the competitiveness of Japanese industries, especially by rationalising the heavy and chemical sectors. This left the government little alternative but to introduce deflationary policies and measures for export promotion through the export-import link system, when faced with the crisis in the balance of payments of late 1953.

This situation highlighted the significance of economic diplomacy for Japan, which had to persuade the sterling area to relax import restrictions immediately. The huge bilateral trade deficit with Australia and Australia's discriminatory treatment of Japan in import licensing became the most significant target of Japan's diplomatic efforts. As the financial measures introduced to reduce Japan's overall imports took effect, MITI made several attempts to divert wool purchases away from Australia, as illustrated in the 'combination deals' with Argentina. Australia's concern motivated Canberra's decision to remove the discriminatory treatment against Japanese goods in import licensing in November 1954. This decision released Australia and Japan from the tight exchange controls which had constituted the main barriers to trade under the postwar worldwide dollar shortage. It was in Australia's own best interest to secure Japanese export markets by showing a positive response towards consolidation of Australia-Japan trade relations developed under the Sterling Payments Agreement. The scene was set for bilateral trade relations to flourish between the two countries. These developments paved the way for the conclusion of the Commerce Agreement between the two countries in 1957.
10 The Role of Australia in the Evolution of the Postwar Japanese Trade Strategy and the Commerce Agreement of 1957

At the outset of the postwar period, the US occupation authority and the Japanese government faced the enormous task of bringing the war-devastated Japanese economy back on a path towards economic recovery and self-reliance. Policy options were considerably circumscribed by the international circumstances. The Cold War severed Japan's commercial links with its traditional export markets and sources of raw materials and foodstuffs on the Chinese continent. A serious dollar shortage prevailed all over the world. As a result, many countries maintained tight import controls to safeguard their foreign currency positions, despite the establishment of an institutional framework for freer international trade and payments under the Bretton-Woods system. Although the Korean War Boom provided Japan with enormous revenue in the shape of special procurement, US aid was curtailed in the early 1950s and Japan could not count on extra dollar supply through the US strategic aid to Southeast Asia.

The Sterling Payments Agreements gave Japan the opportunity to pursue economic self-reliance through a trade strategy based on promoting trade with non-dollar countries on a commercial basis. The sterling area countries actively demanded Japanese manufactured goods, especially those in short supply due to insufficient production in the United Kingdom. The mechanism for multilateral settlement of Japan's sterling trade minimised the restrictive effects of exchange controls, since the sterling area countries were allowed to purchase Japanese goods through payment in sterling. The resultant sterling surplus enabled Japan to finance its procurement of important raw materials and foodstuffs from Australia. At the same time, Australia's huge bilateral trade surplus with Japan was transferred to the other sterling area countries, giving them extra purchasing power to buy Japanese goods. In this sense, Australia played a pivotal role in sustaining and expanding Japan's sterling trade under the worldwide dollar shortage of the postwar period.
The Japanese, however, did not at first fully appreciate the importance of sterling trade and Australia in the re-establishment of postwar commercial networks. As pointed out in Chapter 2, the Japanese wanted to restore traditional trade relations with the Chinese continent and saw this as the key to the recovery of the Japanese economy. The intensification of the Cold War in Asia along with the birth of Communist China and the outbreak of the Korean War virtually closed Japan’s traditional commercial networks with East Asia. The Japanese response to the loss of Chinese trade was two-fold. Some academics thought that the international environment was so problematic that they advocated concentrating on the development of domestic resources. Government and business circles wished to promote dollar based trade, with US assistance. US strategic aid would, they hoped, link Japan’s production capacity with the economic development of non-Communist Southeast Asian countries, consolidating these countries as alternatives to traditional East Asian export markets.

US policy in the Japanese occupation prevented Japan from carrying out either of these plans. Although its goal shifted from Japan’s democratisation and de-militarisation to economic recovery after 1948, the US administration also began to emphasise the necessity for Japan to become economically self-reliant. In 1949, austere financial and fiscal measures were introduced, as advocated by the Dodge Line. This meant that Japanese industry could no longer rely on government subsidies, without which the strategy for domestic economic development was not feasible. Although the US-Japan Economic Cooperation Program raised Japanese expectations of US strategic aid in 1950–51, the US administration was not prepared to inject extra dollars into the Japanese economy. US appropriated funds for the Japanese occupation were reduced. Under US pressure, Japan was forced to abandon its attachment to the renewal of traditional Chinese trade and to the strategy for domestic economic development. US determination to withhold economic aid shattered the strategy to develop Japanese trade networks based on extra dollar supply of a non-commercial nature, such as US strategic aid to Southeast Asia. Japan had no alternative but to promote trade on a more multilateral basis. It dealt not only with the dollar area but also with non-dollar area countries that had the capacity to supply foodstuffs and raw materials essential to economic recovery and that were in return prepared to
purchase unsubsidised Japanese goods on a commercial basis, through expansion of the network of bilateral trade and payments agreements.

Since international trade had stagnated as a result of the dollar shortage, the promotion of trade on a more multilateral basis provided a solution in moderating the restrictive effects of bilateral trade and payments agreements. As Chapter 3 illustrated, the purely bilateral trade arrangement was least effective in the case of Australia-Japan trade, since Japan was constantly short of foreign currencies to finance its procurement of Australian wool. This predicament resulted in the diversion of Japanese wool purchases to non-Australian sources under the Draper coordination system during the occupation period. Although the Overall Sterling Payments Agreement was concluded in May 1948 to facilitate trade through the introduction of a multilateral settlement system in soft currency between Japan and the whole sterling area, growth of Japan’s sterling trade was seriously hampered, as pointed out in Chapter 4. SCAP officials adopted a restrictive approach to financing purchases from the sterling area, in order to minimise a dollar drain through active purchases by the sterling area of essential Japanese goods which were produced from dollar-imported raw materials. The Overall Payments Agreement almost broke down when some SCAP officials wanted to convert sterling funds into dollars on the eve of the devaluation of the pound sterling in September 1949. It was General MacArthur’s highly political decision to maintain Japan’s commercial links with the sterling area that prevented the conversion from taking place.

The Logan Plan was introduced to expand trade by broadening the networks of bilateral arrangements. It was in this context that the Sterling Payments Agreement increased in significance. Chapter 5 indicated SCAP’s increasing interest in diverting of Japanese purchases of foodstuffs and raw materials from the dollar area into the non-dollar area, in the face of the downward trend in US appropriated funds for Japan. SCAP looked to the sterling area for increased procurement of commodities in the negotiations for the Sterling Trade Arrangement of 1949/50. Australia was expected to become the main supplier of raw wool, wheat and barley within the sterling area, since other sterling area countries still lacked sufficient quantities of commodities. Without Australia’s supply capacity, Japan’s sterling trade would have resulted in an excessive accumulation of sterling,
which might have justified dollar conversion by SCAP. In this case the overall level of Japanese sterling trade would have been drastically curtailed.

As the significance of the sterling area for Japan’s economic recovery was recognised, SCAP’s focus in sterling trade shifted from rigid exchange controls to avoid a dollar drain to the liberalisation of trade relations. As mentioned in Chapter 6, SCAP attempted to revise the Sterling Trade Arrangement of 1950/51 in line with GATT principles of most-favoured-nation treatment and non-discrimination. Due to Japan’s healthy dollar position after special procurement during the Korean War, SCAP did not object to swapping dollars to cope with seasonal sterling shortages. SCAP also insisted on freer transfer of its sterling funds in the 1950/51 sterling trade negotiations. Its intention was to promote Japan’s sterling trade further on a more multilateral basis, utilising sterling funds earned from the participants in the Sterling Trade Arrangement for extensive procurement of commodities from such non-participants as Burma and Pakistan. Once SCAP made a commitment to promote Japan’s sterling trade on a freer, multilateral basis, it no longer persisted in maintaining tight exchange controls on sterling funds, and it became receptive to the British proposal for removal of the dollar convertibility clause from the Overall Payments Agreement.

In sharp contrast with SCAP’s liberal approach to sterling trade, the Japanese government showed a strong desire to retain the dollar convertibility clause, when they took over negotiating power from SCAP for a new Sterling Payments Agreement in 1951. As shown in Chapter 7, Japanese officials were seriously concerned about excessive accumulation of unusable sterling. The Japanese approach indicates that the government attached importance to maintaining a sound dollar position so that Japan could impose controls on outflows to the sterling area of essential export goods, most of which had been produced from raw materials obtained through dollar payment. The Japanese hoped to integrate Japan with the dollar area, and they considered the possibility of classifying Japan as an American Account country in Britain’s import licensing system. This idea was contemplated on the assumption that Japan could still count on extra dollar supply from US strategic aid to Southeast Asia under the US-Japan Economic Cooperation Program. However, the strategy broke down when the US administration did not proceed with the aid program. The Japanese government was further compelled to agree to the removal of the
dollar convertibility clause for political reasons; it needed to conclude the new Sterling Payments Agreement by the end of August 1951, in time for the opening of the San Francisco Peace Conference in September.

The 1951 Sterling Payments Agreement was an important landmark in the evolution of the Japanese trade strategy in the post Peace Treaty period, in that the Japanese government, which strongly preferred dollar based trade, had nevertheless to pursue expansion of trade networks on a more multilateral basis as a result of the removal of the dollar convertibility clause. Within the Japanese government, the Ministry of International Trade and Industry and the Ministry of Foreign Affairs accepted the need to follow this trade strategy: they favoured further diversion of commodity procurement to sterling suppliers as a remedy to the excessive accumulation of sterling, as pointed out in Chapter 8. Although the Japanese Foreign Exchange Control Board tried to push the case for maintaining tight exchange controls to ensure a sound foreign currency position, its proposal for drastic restraints on exports to the sterling area was turned down in February 1952, when MITI and the MFA intervened. Government leaders were concerned about the effects of arbitrary adoption of restrictive trade and exchange control measures, in view of Japan's commitment to a freer international trade system as provided for by the IMF and the GATT.

Under the strategy for trading on a more multilateral basis, Australia's capacity as the most important commodity supplier within the non-dollar area was again highlighted. The Japanese proposal for extensive procurement of such strategic commodities as wheat, sugar and iron ore indicated that Japan began to look seriously to Australia as an alternative supplier to North America. In fact, Japan entered into a long-term contract to purchase Australian barley in November 1952, in order to secure a stable commodity supply from this source. Trade with Australia also helped Japan consume its huge sterling surplus, persuading government officials of the feasibility of a policy of not adopting drastic export control measures, as advocated by the FECB.

Once the government was committed to promotion of trade on a more multilateral basis, it became imperative for Japan to achieve economic self-reliance through self-help initiatives in the industrial sector. Although the government focused on promotion of heavy and chemical industrial exports to non-Communist Asian markets as a long-term objective
of Japan's trade policy, those sectors which had flourished on windfall profits achieved through US special procurement had to undergo rationalisation before they could compete on a commercial basis with their counterparts in other industrialised countries. The need to proceed with further industrial rationalisation was recognised when Japan faced a balance of payments crisis in 1953–54; inflationary pressure since the Korean War Boom had weakened the competitive edge of Japanese industry. The government could not resort to arbitrary import restrictions to safeguard the balance of payments, because interventionist measures would affect Japan's industrial competitiveness and would be contradictory to the principles of freer international trade. The government thus had no alternative but to introduce austere financial and budgetary restraints in late 1953.

As discussed in Chapter 9, it was in this context that economic diplomacy came to play a significant role in the liberalisation of Japan's trade relations. Once interventionist measures were ruled out, Japan could expect an immediate increase in its exports only if trade barriers against Japanese exports were minimised through diplomatic approaches. While the Japanese government succeeded in concluding treaties and/or agreements of commerce and navigation with several countries, including the United States and Canada during the first half of the 1950s, it was economic diplomacy towards the sterling area countries that was significant in overcoming the crisis in the balance of payments in 1953/54. The sterling area countries intensified their import licensing against Japanese goods in March 1952, to safeguard their balance of payments. These measures resulted in a serious sterling shortage, which in turn triggered a crisis in Japan's foreign currency position. With the dollar shortage, import licensing had far more restrictive effects than tariffs as a trade barrier. Since the 1951 Sterling Payments Agreement made it unnecessary to set up a forum for collective adjustment of the annual trade volumes between Japan and the sterling area countries as in the previous Sterling Trade Arrangements, Japan had to make diplomatic approaches in order to ameliorate its sterling trade deficit with the United Kingdom and with other British Commonwealth countries.

Australia was selected as the most important target of Japanese economic diplomacy to improve its sterling shortage, since it recorded the largest bilateral trade surplus with Japan among the sterling area countries. In particular, Canberra maintained discriminatory classification of Japan as a hard currency source in its import licensing system, despite the
removal of the dollar convertibility clause from the Sterling Payments Agreement. As a result, Japan recorded a huge bilateral trade deficit with Australia, aggravating its sterling shortage. In its diplomatic approach to Canberra, Tokyo called for a relaxation of import restrictions against Japanese goods, and threatened to cut its purchases from Australia. Shortly afterwards, the Japanese government attempted to divert procurement of raw wool away from Australia to South America. In November 1954, Canberra announced its decision to give Japan soft currency treatment in import licensing, virtually eliminating discriminatory trade barriers against Japanese goods for exchange control purposes. Japan's active diplomatic approaches towards Canberra and the ensuing positive outcomes from the November 1954 decision indicate the significance of liberalisation of bilateral trade relations with Australia, as Australia proved important not only as a commodity supplier but also as an export market.

In fact, Australia’s November 1954 decision was the landmark in opening the Australian market for Japanese industrial exports and acted as a harbinger of the Commerce Agreement. While Canberra responded positively to the Japanese diplomatic approach for relaxation of tight import licensing, at the same time the Australian government wished further to consolidate the freer bilateral trade relations developed under the Sterling Payments Agreement. On 17 November, two days before the announcement of the relaxation of import licensing against Japanese goods, Australia’s Minister for External Affairs expressed willingness to enter into talks ‘to examine mutual trade problems’. While the Australian government made it clear that it wanted to ‘reserve its position’ on Japan’s membership of the GATT, it admitted that ‘the proposed trade talks with Japan would bear the G.A.T.T. position in mind’.1 This signified that Australia was prepared to discuss overall trade relations with Japan, including the GATT problem. In fact, after the November 1954 decision, Australia took the initiative in developing freer bilateral trade relations with Japan, eventually by the conclusion of the 1957 Commerce Agreement.

The Japanese were reserved in their response to Australia’s offer. As pointed out in Chapters 8 and 9, the Japanese government had raised the GATT issue in the negotiations for the 1951 Sterling Payments Agreement and the subsequent review conference in 1952.

---

The sterling area countries, including Australia, had tried to evade the issue by saying that they would discuss it in the formal GATT forum rather than in the payments negotiations with Japan. But when Japan’s sterling balance deteriorated in 1953, Japan began to focus on the problem of tight import licensing by the sterling area countries. In diplomatic approaches towards Australia during 1953, the Japanese specifically targeted Australia’s discriminatory import licensing and Japan’s soft-currency treatment, while proposing informal trade talks with Australia. They were so much concerned about the sterling shortage that they no longer referred to the GATT and other trade issues. This lack of reference to overall trade problems with Australia may be interpreted as a diplomatic tactic to allow both parties to concentrate on the urgent issue and avoid the broader, more complicated GATT issues.

As Rix points out, Japan’s response to Australia’s November 1954 offer to hold the long-awaited trade talks was ‘deliberately understated’. In fact, in an official reply to Canberra which pointed out ‘the lack of any concrete references’ to Australia’s proposal for trade talks, the Japanese government stated that it was difficult to determine Japanese attitudes towards the talks at that moment. With regard to the GATT question, Japan asked Australia only to give ‘prompt and full support’ to Japan’s accession to the GATT. There was no sign of euphoria on the Japanese side about Australia’s offer for trade talks to develop freer bilateral trade relations. One of the reasons for Japan’s attitude may be that the Australian offer was made before Japan was formally admitted as a member of the GATT in September 1955. The Japanese government was concerned that Australia might make some additional requests in the proposed trade talks in return for its acceptance of Japan’s accession. Any bilateral deal, prior to formal membership, to partly exempt Australia from its obligation to apply GATT rules to Japanese trade or to give some special treatment to Australia might have prejudiced Japan’s status in the GATT. In fact, in its instructions to the Japanese Embassy in Canberra in August 1955, the Ministry of Foreign Affairs emphasised the need to avoid being forced to accept any extra requests from

---

2 Rix, 1986, p.201.
Australia, reconfirming that the forthcoming trade talks should be of an ‘informal and noncommittal’ nature.\(^5\)

This cautious diplomatic approach continued until the opening of the negotiations for the Commerce Agreement. Even after Australia revealed its intention to retain GATT Article XXXV in the event of Japan’s formal membership of the GATT, Japan adopted a wait and see attitude. Japan did not dare to push the issue of Australia’s refusal to apply most-favoured-nation treatment to Japanese trade, even though an agreement between the two sides over opening the trade talks should have given Japan a good opportunity request the removal of Australia’s trade discrimination. It was Canberra that first expressed readiness to enter into negotiations for a formal trade agreement, in May 1956. Although Japan accepted the Australian offer, its response was not very enthusiastic. It proposed deferring the start of the negotiations until August on the grounds of ‘the pending talks with the United Kingdom and other governments on payments and trade matters’\(^6\). My interpretation is that the Japanese government gave first priority to the ongoing payments negotiations with the United Kingdom as the key to Japanese trade with the overall sterling area, and therefore tried to avoid giving the British the impression that it was also making a backdoor deal with Australia. In fact, Japan did not hesitate to request elimination of the discriminatory treatment of Japanese goods under the Sterling Payments Agreement in its negotiations with Britain.\(^7\) As on the occasion of the 1936 Trade Diversion Dispute, Japanese officials may still have regarded Australia as just one member of the British Empire and therefore under British control, particularly in trade matters.

Only after Australia informally revealed in July 1956 its negotiation proposals, including the possibility of exchange of most-favoured-nation treatment with Japan, did the negotiations start moving. Both governments exchanged their respective requests in August and their respective initial reactions in October. At this stage, the Japanese government eventually raised its official request for Australia’s application of normal GATT provisions

---


\(^7\) Tsushosangyosho Shijo 1-ka [First Marketing Division], ‘Nichi-Ei Shiharai Kyotei oyobi Boeki Torikime nituite’ [On the Anglo-Japanese Payments Agreement and the Trade Arrangement], Tshusho Chosa Geppo, no.70, April 1957, p.3.
to trade with Japan. In November, the formal negotiations for the Commerce Agreement were opened in Canberra between Australian officials led by Dr W.A. Westerman of the Department of Trade, and the Japanese delegates headed by Nobuhiko Ushiba who had returned to the Ministry of Foreign Affairs as Counsellor of the Minister’s Secretariat. Thus Australia’s strong initiatives encouraged the Japanese government to pursue liberalisation of Australia-Japan trade relations within the framework of bilateral negotiations for the Commerce Agreement.

Japan’s passive approach in the initial stages of the negotiations can be explained by the pessimism within government and business circles over the prospect of a trade deal with Australia. In his memoirs, Ushiba reveals that every other MFA official predicted possible breakdown of the Commerce Agreement negotiations. They hesitated to take on the hard task of negotiating with the Australians, and were concerned about strong anti-Japanese sentiment. But when he arrived in Canberra, Ushiba was much impressed with the ‘reasonable’ attitude of the Australian negotiators. Haruhiko Nishi, who served as Japan’s first postwar ambassador to Australia in 1952–55, confirms Ushiba’s observation about Tokyo’s feelings. With regard to Tokyo’s slow response to Australia’s positive offer for trade talks in 1954, Nishi explains that his Ministry was so concerned about anti-Japanese sentiment in Australia that its officials saw little prospect for the exchange of most-favoured-nation treatment with Australia, even on a conditional basis. Japanese businessmen shared the pessimism about marketing prospects in Australia, pointing out that Japanese sundry goods were sold in Australia without made-in-Japan labels because Australian retailers were concerned about the effect of anti-Japanese feeling. On the other hand, staff of the Japanese diplomatic mission in Australia recognised that Japanese commercial firms needed to make a more sustained sales effort, overcoming their pessimism about trade barriers in Australia.

---

11 Yunyu Shokuryo Kyogikai Jimukyoku [Secretariat, Import Foodstuff Council], ‘Goshu Jijo Zadankai’ [Discussions on the Australian situation], Yunyu Shokuryo Kyogikaiho, no.98, November 1956, pp.5-7. 262
Given Japanese pessimism about the prospects of trade negotiations and export marketing, Australia's generous offer to exchange most-favoured-nation treatment should have given the Japanese negotiators enormous confidence over future trade relations with Australia under the framework set out in the Commerce Agreement. Ushiba believes that this Agreement was an important turning point in developing friendly commercial relations with countries which had had a strong antipathy towards Japan.\textsuperscript{12} In fact, the Commerce Agreement with Australia set the precedent for Japanese economic diplomacy. It provided the pattern for normalisation of Japan's relations with those GATT parties which discriminated against Japan based on Article XXXV, with Japan negotiating bilateral agreements which provided for selective import controls in the case of a sudden surge of Japanese goods threatening domestic industries.\textsuperscript{13} In this sense, Australia's offer raised Japanese expectations when negotiating trade on a more multilateral basis with the remaining 12 GATT signatories still applying Article XXXV. In March 1958, the Japan Spinners' Association noted that the Commerce Agreement had led to a remarkable increase in textile exports to Australia, and called for the cultivation of this important promising market with discretion and in a gradual manner without causing unnecessary alarm among the Australian people.\textsuperscript{14} Apart from its practical effects on export activities, the Commerce Agreement played an important role in boosting the confidence of Japanese government and business circles in Australian trade.

Australia's initiative on the Commerce Agreement had another significant effect on the multilateralisation of Japan's postwar trade with international trade networks. One of the aims of the Australian government in its proposal for exchange of most-favoured-nation treatment and non-discriminatory treatment was to facilitate access to the Japanese wheat market. Australia was concerned about Japan's wheat import trade, which had largely been distorted by non-commercial factors, and wished to obtain the share of the Japanese market which Australia could expect if Japan's purchases were 'based purely on price and

\textsuperscript{12} Ushiba, 1984, p.96.
\textsuperscript{13} Article V of the Commerce Agreement provided waiver of each parties' obligations such as the most-favoured-nation treatment as stipulated in Article I and non-discriminatory treatment in Article II, in case 'unforeseen developments' threatened to cause serious injury to domestic industries. The Commerce Agreement between Japan and Canada in 1954 also contains a similar emergency action clause, though, in more restricted terms.
quality'.  

It was Japan's purchases of surplus wheat from the United States that Australia regarded as an important target, since American surplus disposals prejudiced Australia's commercial interest in Japanese trade. Any solution to this problem would force the Japanese government to make a choice between dollar-based trade with North America through the preferential surplus disposal agreement and trade on a non-discriminatory multilateral basis under the GATT.

The purchases of US surplus wheat started when the Japanese government concluded the Mutual Defence Assistance Agreement (MSA Agreement) in March 1954. As discussed in Chapter 8, the Yoshida government expected that the MSA Agreement would provide Japan with extra dollar supply to overcome the crisis in the balance of payments. Japan gave priority to US surplus wheat over normal wheat purchases on a commercial basis, bearing in mind the benefits of US defence support that would be obtained in return. The US surplus disposal arrangements were a product of Japan’s strong attachment to a dollar-based trade strategy arising from pessimism over the future of Japanese trade without the traditional Chinese commercial links and a sense of dependency on the generosity of the United States. The Japanese were not confident enough to commit themselves to more multilateral trade on a commercial basis through their own self-help efforts at export promotion.

In May 1955, Japan concluded another surplus disposal agreement based on the Agricultural Trade and Development and Assistance Act 1954 (US Public Law 480), under which it was to purchase US surplus wheat, barley and other commodities in the order of $85 million. In February 1956, Japan revised the agreement to purchase $66 million of US surplus commodities, including wheat. By the time formal negotiations for the Commerce Agreement started in Canberra in November, there had developed serious intra-governmental disputes over renewal of the surplus disposal agreement with the United States. If Japan was to open its market to Australian wheat to assist Canberra, it would have to abandon the surplus disposal program because domestic demand for wheat had fallen considerably due to the good rice crop in the previous year. There was strong opposition to the surplus disposal scheme from those who believed in the need to develop

---

more independent economic diplomacy and to achieve economic self-reliance without excessive dependence on the US surplus disposal program which forced dearer commodities on Japanese consumers. However, the Ministry of Agriculture and Forestry (MAF), led by its Minister, Ichiro Kono, lobbied strongly for the surplus disposal agreement, in order to promote its own program for strengthening domestic food production. The MAF tried to capitalise on the yen fund which was used to fund Japanese payments for US surplus commodities, to provide finance at low interest rates for domestic economic development projects such as the augmentation of power generation capacity through construction of dams. Kono succeeded in persuading the US administration into increased use of the fund for agricultural purposes in the February 1956 agreement. In the end, however, the Japanese government opted for the establishment of freer trade links with Australia, deciding not to renew the surplus disposal agreement in December.

From this perspective, the Commerce Agreement can be seen as a landmark through which Japan reconfirmed its commitment to trade on a more multilateral basis, setting aside other options. Akaneya argues that it represented the triumph of the international trade school over the domestic development school. As discussed in Chapter 2, with the Peace Settlement in sight, the domestic development school advocated the development of domestic resources financed by the introduction of foreign capital as the key strategy for the post-independence self-reliance of the Japanese economy. The MAF idea for increased food production through the use of the surplus disposal fund fitted with the argument of this school. In the early 1950s, Japan opted for the promotion of international trade through networks of bilateral payments and trade agreements, as it could not count on the US-Japan Economic Cooperation Program. As this thesis has argued, the Sterling Payments Agreement was the largest and the most important agreement which made this trade strategy feasible. Under the Agreement Australia's capacity to supply commodities played a pivotal role, by circulating purchasing power from Japan to other sterling area countries. The fact that the MAF proposal was set aside in preference to developing more liberal trade

relations with Australia meant that once again the Japanese government had not favoured domestic development. By offering Japan an attractive deal on the exchange of most-favoured-nation treatment for the relinquishment of the surplus disposal program, Australia had thus encouraged Japan to confirm its commitment to a trade strategy based on multilateral dealings.

On 6 July 1957, the Commerce Agreement was officially signed. It took six months to finalise the negotiations, after the settlement of the US surplus disposal problem at the end of the previous year because the Japanese firmly opposed the Australian proposal for an emergency clause and the binding of Japan’s free custom duty on wool imports. Japan resisted the Australian proposal for insertion of the emergency clause on the grounds that it contradicted GATT principles prohibiting selective import control measures targeting a particular country. These matters were finally settled when Australia agreed to review retention of GATT Article XXXV within three years after the Agreement coming into effect. This established an important precedent in Japan’s economic diplomacy up to the mid 1960s. Moreover, the Japanese government developed its determination to introduce GATT principles into Australian trade, emphasising the abrogation of the right to invoke Article XXXV. This approach was in sharp contrast with the passive attitude Japan had adopted when Australia in the preceding years, had offered to open trade negotiations and had proposed the exchange of most-favoured-nation treatment.

Japan’s commitment to bringing its economy into the freer international trade system under the GATT was in line with its growing confidence in economic self-reliance centred on self-help and trade on a more multilateral basis. The success in overcoming the crisis in the balance of payments in 1953–54 led the Economic Planning Agency to advocate further efforts for rationalisation and modernisation of production capacity, and to assert that the postwar period and ‘economic growth through reconstruction is over’ in the 1956 issue of its Economic White Paper. Gone was the early pessimism over the future of Japanese trade circumscribed by the loss of traditional Chinese markets, the decrease in US special procurement and the formation of international networks of trade barriers against Japanese exports. The bright prospects for the negotiations in Canberra boosted Japanese confidence

17 Kajiki, 1957, p.36.
in the feasibility of normalising commercial relations with countries which retained Article XXXV, as they witnessed a positive response towards conclusion of the Commerce Agreement with Australia, which until then had adopted the toughest trade policies against Japan. It is no coincidence that in the first issue of *Diplomatic Blue Papers*, which was published two months after the conclusion of the Commerce Agreement, the Ministry of Foreign Affairs listed economic diplomacy to eliminate trade barriers against Japan as one of three diplomatic issues of immediate concern.

The 1957 Agreement triggered further liberalisation and expansion of Australia-Japan trade. The 1963 revision of the Commerce Agreement with Australia paved the way for an increase in Japan’s beef imports, in return for Australia’s formal abrogation of the right to invoke Article XXXV. The emergence of Australia as a major supplier of iron ore and coking coal contributed the diversification of Japan’s supply sources of strategic raw materials.

When US-Japan trade friction grew worse in the 1980s, the United States put strong pressure on Japan to improve American agricultural marketing opportunities through bilateral deals, even running the risk of infringing the principles of non-discriminatory treatment for other suppliers including Australia. It was Australia that called strongly for application of the GATT principles of non-discrimination in the US-Japan deals. As a result, in July 1988 the Japanese government finally agreed to the abolition of the quota system for beef and orange imports. Without Australia’s pressure the Japanese government might have preferred to make another bilateral deal with the United States to increase the existing US quotas. The proposal by the Australian Prime Minister, Bob Hawke, for the Asia Pacific Economic Cooperation (APEC) meeting in January 1989 can be interpreted as another attempt by Australia to entice Japan further towards commitment to the multilateral trading system.

As more diplomatic archival documents covering these issues are released, further studies of postwar Australia-Japan trade relations will emerge. In analysing these issues, researchers need to bear in mind Australia’s role in the evolution of Japan’s trade strategy on a more multilateral basis, as discussed in this thesis. It will also be of interest to look into the evolution and consistency of Australia’s commitment to a freer, non-discriminatory international trade system under the GATT and, from this year, the World Trade
Organisation (WTO). Without Australia's full commitment to this trade strategy, there would not have been such rapid restoration of the postwar commercial links between Australia and Japan, nor Japan's 'miracle' of economic recovery and high growth, both of which were sustained by trade on a more multilateral basis.

Drysdale points out that one of the main architects of the Commerce Agreement and the postwar development of Australia-Japan trade relations, Sir John Crawford, recognised Australia's commercial interests in accommodation of Japanese industrialisation into a system of 'collective agreements' for freer international trade, especially in the Asia-Pacific region, as early as the late 1930s. Crawford tried to establish commercial links with Japan as Secretary of the Department of Commerce and Agriculture and later the Department of Trade during the 1950s, exactly in line with his original idea. The fact that the Commerce Agreement was signed by the Minister for Trade and leader of the Country Party, John McEwen, and that the leader of the Opposition Party, H.V. Evatt, later opposed it may give the impression that the Agreement was designed to safeguard the interests of the rural sector at the cost of domestic industry and that the Labor Party and the trade were against economic rapprochement with Japan. H.C. Coombs, who played an important role in working out Australia's postwar economic and trade policies as Director-General of the Ministry of Post-War Reconstruction under the Labor government during the 1940s, reveals, however, that the Prime Minister, Ben Chifley, impressed Coombs himself with his recognition of the need to 'help the Japanese find an economic place for themselves in the world' despite the political difficulties. Coombs also notes the Chifley government's support for the freer international trade system under the GATT and the mutual understanding on this issue between Chifley and the then Opposition leader and later Prime Minister, Robert Menzies. Crawford himself argues that Australia's postwar trade policy underwent a revolutionary change from that of prewar economic nationalism symbolised in the 1932 Ottawa Agreement to commitment to the multilateral trade system. Despite some changes from the early postwar period to the mid 1960s, the 'international centre of trade

policy interest and activity for Australia remains the General Agreement on Tariffs and Trade'. 21

These episodes suggest that there was steady bipartisan support for pursuing Australia's commercial interests within the freer multilateral international trade system under the GATT, despite the fact that industrial protection was a key element in policies underpinning Australia's political foundations until recently. 22 So the study of Australia's postwar trade policy history (and the commitment by Labor governments in recent years to trade liberalisation) reveals continuity in Australia's commitment to the multilateral trading system.

The 1957 Commerce Agreement had a strong impact on the Australian public, both positive and negative. Both the textile industry and the trade unions, for example, announced their opposition because of their grave concerns about the inflow of Japanese goods threatening their industrial future. 23 The Agreement was warmly welcomed in Japan. The major Japanese newspapers welcomed increased trading opportunities and the improvement of relationships between Japan and Australia. At the same time, there was a chorus of warnings that Japanese export drives might cause serious damage to the newly established liberal institutional framework for Australian trade and might affect subsequent negotiations with other parties retaining Article XXXV. 24 Japanese trading circles understood the warning well, and they made efforts to conduct orderly marketing to Australia, especially of textile exports. 25 As a result, Australia grew to be the single largest market for Japan's cotton piece goods in 1960–64. The establishment of these active but steady commercial networks bore fruit in the shape of the inaugural Australia-Japan Business Cooperation Committee in May 1963 and the complete normalisation of Australian-Japan trade relations through the conclusion of the revised Commerce

24 Editorials; 'Nichi-Go kanno Atarashii Tsusho Kankei' [New trade relations between Japan and Australia], Asahi Shimbun; 'Shin Jidai ni Haitta Nichi-Go Kankei' [New era of the Japan-Australia relations], Nihon Keizai Shimbun; 'Nichi-Go Tsusho no Shin Kido wo Sodateyo' [Establish a new orbit for Japan-Australia trade]; all these editorials appeared on 7 July 1957.
25 Bunroku Yoshino, 'Goshu Gyokai no Doko: Tai-Go Yushutsu Kisei Mondai wo Meguite' [Current situation of the Australian industry: On the issue of export restraint to Australia], Yushutsu Menshifu Geppo, vol.8, no.4, April 1958, p.15.
Agreement in August 1963. This consolidation of commercial links led Australia and Japan into a so-called ‘honeymoon’ period from the mid 1960s as the Japanese public eventually came to recognise Australia’s position in Japanese trade as the main supplier of strategic raw materials.

Despite the large volume of trade exchanged between the two nations since the early postwar period, Australia’s profile among the Japanese has remained relatively understated. Japan’s rapid economic recovery and self reliance came to be premised on a multilateral-based trade strategy, as the options of excessive dependence on the United States and development based on domestic resources were ruled out. Central to this strategy was the network of trade and payments agreements focused on the Sterling Payments Agreements before the mid 1950s and, subsequently, the freer multilateral international trading system under the GATT. Australia played a significant role in convincing the Japanese of the feasibility of this strategy, as the dynamo of Japan’s sterling trade at the time of dollar shortage, and by taking the initiative in establishing the liberal trade framework incorporated in the 1957 Commerce Agreement. Though understated, it appears that, in the postwar period, Australia has played a consistent role in strengthening Japan’s commitment to the multilateral trading system. The nature of Australia’s trade with Japan and both countries’ position in the international economy have promoted this role. This history of Japan’s trade relations with the sterling area may provide some signposts for the future, as well as warnings, should these interests in the two countries’ trade relationships be neglected, as they were in the 1930s.
Bibliography

ARCHIVAL SOURCES

a. Australian Archives, Canberra

The departmental records of the Australian Archives are classified under each department's series number, such as 'A606', 'CP553/1' and 'A1838', followed by the file's number.

1) Department of Commerce and Agriculture
A606: 317/20/4; 317/20/5, 317/20/6, 317/20/7 Part VI; 354/32/2
A606: 552/137/15; 555/120/4 Part 2
A606: R40/1/42; R40/1/51; R40/1/66; R40/1/67; R40/1/74; R40/1/80; R40/1/83;
    R40/1/88; R40/1/90; R40/1/95; R40/1/103; R40/1/105; R40/1/111; R40/1/119

2) Department of Trade and Customs
CP553/1: 194/B/10/50/5; 194/B/10/50/6; 194/B/10/60; 194/B/10/91; 194/B/10/101;
    194/B/10/103; 194/B/10/118

3) Department of External Affairs
A1838: 479//2/10 Part 1 & 2

b. Kensei Shiryoshitsu, Kokuritsu Kokkai Toshokan, Tokyo [Archives on Contemporary Political History, National Diet Library]

Microfiches of the records of the Supreme Commander of Allied Powers for Occupied Japan

SCAP records are kept in the US National Archives, Washington DC. The records of the Archives on Contemporary Political History are copied from the original documents into microfiches. The four-digit numbers with parenthesised numbers, as appear below, correspond to the box numbers of the original files. SCAP section abbreviations with parenthesised alphabetical letters and five-digit numbers denote the microfiche numbers of the National Diet Library Archives.

1) Documents on general trade policy for Japan
   5978(1), ESS(C)00078-00079; 6365(3), ESS(A)02450-02451;
   6686(17), ESS(A)04799; 6698(25), ESS(B)06753;
   6709(21), ESS(C)05430-05432; 6709(29), ESS(C)05435-05437;

2) Documents on Japan’s wool procurement
   6090(3), ESS(D)00804-00806; 6090(4), ESS(D)00806-00808;
   6092(10), ESS(B)00936-00938; 6116(6), ESS(D)00890-00891;
   6149(5), ESS(C)01492-01495; 6149(6), ESS(C)01495-01497;
   6188(11), ESS(A)01305-01307; 6445(27), ESS(B)03668-03669;
   6709(37), ESS(C)05438; 6709(38), ESS(C)05438-05439;
6747(19), ESS(A)05537-05538; 6782(7), ESS(A)05903-05907; 6783(1), ESS(A)05942;
3) Documents on the Sterling Trade and Payments Agreements
6213(12), ESS(B)01873-01878; 6417(22), ESS(E)00968;
6680(12), ESS(C)05161-05162; 6680(21), ESS(C)05187;
6707(9), ESS(A)05091-05094; 6715(37), ESS(B)07008;
6718(15), ESS(B)07093-07095; 6726(19), ESS(C)05747-05750;
6726(14), ESS(C)05740-05744; 6727(3), ESS(A)05114-05120;
6729(22), ESS(A)05204-05205; 6734(18), ESS(A)05401-05404;
6734(25), ESS(A)05418-05420; 6734(29), ESS(A)05421-05423;
6735(13)-(16), ESS(A)05438-05448; 6735(19)-(24), ESS(A)05448-05457;
6768(5), ESS(C)06099-06101; 6768(6), ESS(C)06101-06105;
6961(31), ESS(A)07363-07369;
4) Documents on food procurement
5979(2), ESS(C)00107-00108; 6442(26), ESS(B)03587-03588;
6705(1), ESS(A)05018-05022; 6709(20), ESS(C)05428-05430;
6678(35), ESS(C)05063-05066;
5) Documents on most-favoured-nation treatment
6442(17), ESS(B)03582-03583; 6442(26), ESS(B)03587;
6687(1), ESS(A)04829-04830; 6704(22), ESS(A)05004-05005;
6704(42), ESS(A)05015-05017; 6783(20), ESS(A)05958-05959;
6959(29), ESS(A)07278; 7561(6), ESS(A)10538-10539;

c. Gaimusho Gaiko Shiryokan, Tokyo [Diplomatic Archives Office, Ministry of Foreign Affairs]
Microfilms on Postwar Diplomatic Records
The following are the numbers of the microfilms which are available at the Diplomatic Archives Office.
B'0.0.2.0.; B'0.0.2.1.; B'6.4.0.7.
E'0.0.0.5.; E'2.0.0.9.

BOOKS AND ARTICLES
a. English Language


Office of Intelligence Research, Department of State, 1953, *Japan's Trade with the Sterling Area: Problems and Prospects (Intelligence Report No.6022)*, 14 August.


b. Japanese Language

Most of the English titles of the following books and articles are my translation. In the case of those which have their own English titles, the initial letter of each word except articles and prepositions is capitalised.

In the thesis, I often refer to anonymous articles appearing in monthly, bi-monthly or weekly journals. These articles are listed in alphabetical order under the journals' title, followed by date of publication and the article's title.


Akaneya, Tatsuo, 1992, *Nihon no Gatto Kanyu Mondai* [Japan's membership into the GATT], Tokyo Daigaku Shuppankai.


Akikawa, Kishio, 1957, ‘Nichi-Go Kyotei ni Tomonau Goshu Komugi no Kaitsuke ni tsuite’ [Purchases of Australian wheat along with the Australia-Japan Commerce Agreement], *Shokuryo Kanri Geppo*, vol.9, no.9, September, pp.16-19.


Ando, Yoshio, ed., 1972, Showa Setji Keizaishi heno Shogen [Witnesses on the political and economic history of the Showa period], Mainichi Shimbunsha.


Arisawa, Hiromi & Inaba, Hidezo, eds., 1966, Shiryo Sengo Nijunenshi 2: Keizai [Documents on Japan’s postwar twenty years history, volume 2: Economy], Nihon Hyoronsha.

Boeki to Kanzei, March 1958, ‘Kyoteigo no Nichi-Go Boeki Doko: Nobiteiruga Zento Keikai no Yo’ [Australia-Japan trade after the Commerce Agreement: Caution needed despite its expansion], vol.6, no.3, no.60, pp.31-33.

Chiga, Tetsuya, 1954, ‘MSA Komugi Shikin wa Do Shiyo Sareruka’ [How will the MSA fund for surplus wheat be used?], Jitsugyo no Nihon, vol.57, no.23, 1 October, pp.65-67.


Daiyamondo, 11 December 1949, ‘Rogan Koso hen Chumon: Yunyu Senko Shugi no Koka Ikan’ [Requests for the Logan plan: Effects of the import-first policy], no.34, pp.6-7.


Ekonomisuto, 24 October 1953, ‘MSA Komugi to MSA Menka: Sono Kaitsuke wo Meguru Mondaiten’ [Problems over the purchases of surplus wheat and cotton through the MSA program], vol.31, no.43, pp.38-39.


Furukawa, Mantaro, 1981, Nicchu Sengo Kankeishi [The postwar history of Japan-China relations], Hara Shobo.

Gaimusho [Ministry of Foreign Affairs], *Waga Gaiko no Kinkyo* [Diplomatic Blue Paper], various issues.


Gaimusho Keizaikyoku Dai 4-ka, 1957, *Nichi-Go Tsusho Kosho no Keii oyobi Mondaiten* [The development of the Japan-Australia trade negotiations], January, available at the Faculty of Economics Library, University of Tokyo.

Gaimusho Keizaikyoku Sutaringu-ka [Sterling Area Division], 1958, ‘Nihon Nyujirando kan Tsusho Kyotei Kosho no Daketu ni tsuite’ [Conclusion of the New Zealand-Japan Trade Agreement], *Kaigai Keizai Jojo*, no.301, vol.8, no.18, Second half of September, pp.1-4.

Gaimusho Keizaikyoku Sutaringu-ka, 1959, ‘Goshu no Yunyu Seigen Undo’ [Australia’s import restrictions], *Keizai to Gaiko*, no.324, First half of September, pp.11-15.


Hara, Kakuten, 1951, ‘Tonan Ajia Kaihatsu to Nihon’ [Japan and the development of South East Asia], *Daiyamondo*, vol.39, no.18, 1 June, pp.21-23.

Hashimoto, Hideichi, 1953, ‘Nihon Boeki to Tonan Ajiya’ [Japanese trade and South East Asia], *Toyo Bunka Kenkyujo Kiyo*, no.4, pp.287-337.


Hayashi, Yujiro, ed., *Nihon no Keizai Keikaku: Sengo no Rekishi to Mondaiten* [Japan’s economic planning: History and problems], Toyo Keizai Shimposha, 1957.


Horie, Tadao, 1951, ‘Beikoku no Tonan Ajia Seisaku’ [The US policy for South East Asia], Sekai Keizai, vol.6, no.6, June, pp.13-21.


Hosoya, Chihiro, 1984, Sanfuranshisuko Kowa heno Michi [The path to the San Francisco peace settlement], Chuo Koronsha.


Iida, Tsuneo, et.al., 1976, Gendai Nihon Keizaishi: Sengo 30-nen no Ayumi (Jo) [The contemporary Japanese economic history during the postwar 30 years, vol.1], Chikuma Shobo.


Ito Kotaro, 1957, Nihon Yomo Kogyoron [Japanese woollen industry], Toyo Keizai Shimposha.

Ito, Renzo, 1953, ‘Gemmo no Yunyu Yokuatsu wa Gusaku’ [The import regulation of raw wool is a folly], Yomo, November, pp.7-8.

Jinno, Masao, 1955, ‘Waga Kuni no Tai-Pondoken Boeki no Zento’ [Prospect of Japan’s trade with the sterling area], Yushutsu Menshifu Geppo, vol.5, no.6, June, pp.2-5.

Jitsugyo no Nihon, 1 December 1949, ‘Pondo Kirisagego Waga Kuni no Yushutsu wa Donaruka’ [Prospect of Japanese exports after the pound’s devaluation], vol.52, no.23, pp.36-37.

Kajiki, Toshimichi, 1957, ‘Nichi-Go Tsusho Kosho wo Kaerimite’ [Japan Australia trade negotiations], Boeki to Kanzei, vol.5, no.8, August, pp.35-37.


Kanematsu Yomo Nempo [Kanematsu Wool Annual], various issues.


Katayama, Ishio, 1953, ‘Pondo Yushutsu Fushin no Gen’in to Taisaku’ [Reasons and policy for the inactive sterling exports], Yushutsu Menshifu Geppo, vol.3, no.9, September, pp.4-7.


Kato, Tadao, 1964, ‘Shijo toshite no Taiyoshu’ [Oceania as an export market], Keizai to Gaiko, no.451, Second half of December, pp.6-8.


Keidanren Geppo, May 1953, ‘Pondo no Kokansei Kaifuku to Nihon no Boeki’ [Restoration of the convertibility of the pound and Japan’s trade], vol.1, no.5, pp.16-31.

Keidanren Geppo, April 1954, ‘Kokusai Shushi no Kiki wo Do Dakai suruka’ [How to overcome the crisis in the balance of payments], vol.2, no.4, pp.10-20.


Keidanren Jimukyoku [Secretariat, Federation of Economic Organizations], 1952, ‘Shin Tokuju no Igi to Keizai Kyoryoku no Koso ni tsuite’ [The significance of the new special procurement and the economic cooperation program], Keizai Rengo, no.56, August, pp.22-26.

Keidanren Jimukyoku, 1953a, ‘MSA no Sessho Keika to Ikigai Chotatsu no Hoko’ [The MSA negotiations and the prospect of the offshore procurement], Keidanren Geppo, vol.1, no.10, October, pp.33-36.


Keizai Dantai Rengokai [Federation of Economic Organizations], 1951, ‘Nichi-Bei Keizai no Kyoryoku Taisei ni Kansuru Iken’ [Opinion on the US-Japan economic cooperation], Keizai Rengo, no 40, April, pp.15-17.


Keizai Dantai Rengokai, 1953a, ‘MSA Ukeire ni Kansuru Ippanteki Yobo Iken’ [General requests on the MSA], Keidanren Geppo, vol.1, no.8, August, pp.42-44.

Keizai Dantai Rengokai, 1953b, Pondomuke Yushutsu Sogai no Jitsuyo to Sono Dakaisaku ni Kansuru Yobo Chosa [Realities of the difficulties in export promotion towards the sterling area], Keizai Shiryo, no.127, November.


Kiuchi, Nobutane, 1 August 1952, ‘Sogo Keizai Seisaku to Kawase Boeki Kanri Seisaku (2)’ [Overall economic policy and foreign exchange trade control policy], *Gaikoku Kawase*, no.54, pp.3-4.


Kiuchi, Nobutane, 1 August 1954, ‘Boeki Seisaku no Kaiko to Hansei: Sono 1’ [Retrospect and review of trade policy: Part 1], *Gaikoku Kawase*, no.100, pp.4-5.


Kobayashi, Masumi, 1951, ‘Pondo Yuzansu Biru Seido no Saiyo ni tsuite’ [The introduction of the pound usance bill system], *Gaikoku Kawase*, no.20, 15 February, pp.13-17.

Komiya, Ryutarō and Masahiro Okuno, Kotaro Suzumura, eds., *Nihon no Sangyo Seisaku* [Japan’s industrial policy], University of Tokyo Press, 1984.

Kondo, Yasuo, ed., 1975, *Dai 3 no Buki Shokuryo* [The third weapon: food], Ochanomizu Shobo.


Kurahachi, Tadashi, 1950, ‘Yomo Seihin Yushutsu Rinku Seido ni tsuite’ [The export link system for woollen products], *Yomo*, May-June, pp.2-4.

Kurata, Kazue, 1951, ‘Sangyo Noritsu wo Zoshin Saseyo’ [Let’s strengthen the industrial efficiency], *Daiyamondo*, vol.39, no.18, 1 June, pp.5-8.


Matsui, Kiyoshi, 1951, ‘Kowa to Nihon Boeki no Zento’ [The peace settlement and the future of Japanese trade], *Sekai Keizai*, vol.6, no.11, November, pp.2-11.


Miyazawa, Kiichi, 1 April 1955, 'Nichi-Bei Keizai Kosho no Moten' [Problems in the US-Japan economic negotiations], *Jitsugyo no Nihon*, vol.58, no.9, pp.58-63.

Miyazawa, Kiichi, 15 April 1955, ‘Tonan Ajia wo Meguru Nichi-Bei no Keizai Kosho’ [US-Japan economic negotiations over South East Asia], *Jitsugyo no Nihon*, vol.58, no.10, pp.76-78.


Mori, Tom, 1952, 'Nichi-Bei Keizai Kyoryoku wo Minogasuna' [Don't overlook the role of rationalisation], *Daiyamondo*, vol.39, no.18, 1 June, pp.3-5.

Nagano, Shigeo, 1951, ‘Gorika no Yakuwari wo Minogasuna’ [Don’t overlook the role of rationalisation], *Daiyamondo*, vol.39, no.18, 1 June, pp.3-5.

Nakamura, Akira, 1951, ‘Yomo no Kaigai Josei to Yunyu no Genkyo’ [Overseas market conditions of wool and the current situations of its imports], *Yomo*, February-March, pp.6-14.


Taiheiyo Senso: Kaisen kara Kowa made [The Pacific War: From the breakout to the peace settlement], Yamakawa Shuppansha, pp.279-302.


Nakamura, Toshio, 1953, 'Nichi-A Shintshuso Kyotei ni tsuite' [On the new Japan-Argentina Trade Arrangement], Gaikoku Kawase, no.73, 1 June, pp.39-41.

Nakaoka, San'eki, 1951, Sengo Nihon no Tai-Ajia Keizai Seisakushi [The postwar history of Japanese economic policy towards Asia], Ajia Keizai Kenkyusho.

Nakayama, Ichiro, 1953, Nihon Keizai no Kao [The face of the Japanese economy], Nihon Hyoron Shinsha.

Nanseikai, 1978, Nanseikai 20-nenshi [20 year history of the Nanseikai].


Narita, Katsushiro, 1971, Nichi-Go Tsusho Gaikoshi [The history of Japan-Australia trade and diplomacy], Shin Hyoron.

Nihon Boseki Geppo, November 1953, 'Sutaringu Chiiki Boeki Dakai no tameni' [For improvement of exports to the sterling area], no.83, p.1.


Nihon Boseki Kyokai [Japan Spinners' Association], Sengo Bosekishi [The history of the postwar Japanese spinning industry], Tokyo, 1962.

Nihon Ginko Tokeikyoku [Department of Statistics, Bank of Japan], Hompo Keizai Tokei [Economic statistics of Japan], various issues.


Nihon Menshifu Yushutsu Kyokai [Japan Cotton Yarns and Textile Export Association], 1951, 'Pondo Chiikimuke Yushutu Seigen-An ni Taisuru Hantai Chinjo no Ken' [Petition against the proposed export restraints on sterling trade], Yushutsu Menshifu Geppo, vol.1, no.8, December,


Nihon Tekko Renmei [Japan Steel League], 1959, *Sengo Tekkoshi* [The postwar history of steel].


Nihon Yomo Sangyo Kyogikai [Japan Council of Wool Industries], 1967, *Yomo Sangyo Sengo 20-nen no Ayumi* [20 years history of the wool industry].

Nihon Yomo Yunyu Dogyokai [Japan Wool Importers Association], 1961, *Nihon Yomo Yunyu Dogyokai to Waga Kuni Yomo Yunyu Nanajyutonen no Ayumi, 1890-1961* [The history of the Japan Wool Importers Association and Japan’s wool imports].


Nishikawa, Hiroshi, 1990, ‘Boeki no Jittai to Tsusho Seisaku’ [Realities of international trade and policy], Tsushosangyosho Tsusho Sangyo Seisakushi Hensan Iinkai, 1990a, chapter 5, section 2.


Norinsho [Ministry of Agriculture and Forestry], *Norinsho Nempo* [The annual of the Ministry of Agriculture and Forestry], various issues.

Norinsho Daijin Kambo Somuka Kokusai Kyoryokuhan [International Cooperation Unit, Policy Coordination Division, Minister’s Secretariat], 1955, *Beikoku no Tai-Ajia Enjo Keikaku no
Gaiyo oyobi Tai-Nichi Keizai Enjo [The outline of US aid program for South East Asia and economic assistance for Japan], Kokusai Kyoryoku Shiryo no.1, May.

Norinsho Daijin Kambo Sogo Shokuryo Shohi Seisakushitsu [Comprehensive Food and Consumption Policy Unit], Beikoku Yojo Nosanbutsu Shijo Kaitaku (104-jo A-ko) notameno Yen Shikin Shiyo Keikakuan [Draft plan for the use of the yen fund for marketing of US surplus disposal under Article 104-A], November.

Norinsho Daijin Kambo Chosaka [Research Division, Minister’s Secretariat], 1955, Kajo Nosanbutsu rino Nihon Nogyo [Japanese agriculture under surplus disposal], Chosa Shiryo no.178, December.

Norinsho Daijin Kambo Somuka, ed., 1972, Norin Gyoseishi [The history of administration of agriculture and forestry], vol.8.


Nosei Janarisutonokai, ed., 1976, Sengo Nosei no Tuikyu [Analysis of the postwar agricultural policy], Norin Tokei Kyokai.

Okita, Saburo, 1949, ‘Kokusai Kaihatsu ka, Boeki Izon ka’ [Domestic development or foreign trade?], Kokumin Keizai, vol.4, no.6, June, pp.9-14.

Okita, Saburo, 1950, ‘Ajia Keizai to Nihon Keizai’ [Japan and Asian economies], Sekai, no.52, April, pp.44-49.


Okita, Saburo, 1983, Japan’s Challenging Years: Reflections on my Lifetime, Canberra, Australian Japan Research Centre.

Okurasho Rizaikyoku Shikinka [Fund Division, Financial Bureau, MOF], 1955, ‘Beikoku Yojo Nosanbutsu no Ukeire to, Mikaeri Yen Shikin no Unyo to wo Meguru Shomondai’ [Problems in the importation of US surplus products and the use of the yen fund], Kin’yu, no.95, February, pp.17-19.


Ouchi, Hyoe, 1952, ‘Waga Kuni no Keizaiteki Dokuritsu to Chugoku’ [Japan’s economic independence and China], Keizaijin, vol.6, no.9, September, pp.4-6.


Saketa, Masatoshi, 1986, ‘Kowa to Kokunai Seiji: Nicchu Boeki Mondai tono Kanren wo Chushin ni’ [The peace settlement and Japanese domestic politics over Chinese trade], Akio Watanabe and Seigen Miyazato, eds., 1986, chapter 4


Sato, Sakito, 1953, ‘Kyotei Boeki kara Mita Pondo Boeki’ [Sterling trade through bilateral agreements], *Yushutsu Menshifu Geppo*, vol.3, no.9, September, pp.1-3.

Sato, Takeo, 1955, ‘Yojo Nosanbutsu Kyotei no Daketsu to Mondaiten’ [Problems in the surplus agricultural disposal agreement], *Shokuryo Kanri Geppo*, vol.7, no.8, August, pp.2-6.


Shasetsu [editorial], 1951, ‘Doru Joko wo Ikani Kaiketsu Suruka: Kokan Gendo no Hikiage de Dakyoseyo’ [How to settle the dollar convertibility clause?: Increased working capital should be sought], *Daiyamondo*, vol.39, no.18, 1 June, pp.10-11.

Shima, Ichiro, 1955, ‘Watashi no Mita Goshu’ [Australia from my perspective], *Yushutsu Menshifu Geppo*, vol.5, no.6, June, pp.21-28.


Takahashi, Sadao, 1954, ‘Nihon Keizai no Kiki wa Dokoni Aruka: An’ina Kotosaku dewa Sukuwarenai’ [Where is the cause of the crisis of the Japanese economy?: No solution through an easy patch-up measure], *Gaikoku Kawase*, no.92, 1 April, pp.1-6.


Takekoshi, Yoichi, 1951, ‘Bei Doru oyobi Sutaringu Shikin no Kanri to Un’yo’ [The control and the management of the dollar and sterling funds], *Gaikoku Kawase*, no.24, 15 April, pp.10-13; no.25, 1 May, pp.14-18.


Tamai, Kikuo, 1951, ‘Yomo Yunyu ni tsuite’ [Wool import], *Yomo*, January, pp.7-10.


Tani, Yoritaka, 1957, ‘Pondo Chiiki ni okeru Goshu no Yakuwari to Sono Dai 2-ji Sangyo Hogo Seisaku ni Kansuru Jakkan no Kosatsu’ [Australia’s role in the sterling area and its industrial protection policy], *Gaikoku Kawase*, no.157, 1 February, pp.5-8; no.159, 15 March, pp.19-23.


Tokushu, 1954a, ‘Kokusai Shushi no Kiki wa Sattaka’ [Has the balance of payments crisis gone?], *Ekonomisuto*, vol.32, no.50, 11 December, pp.24-29.


*Tosho*, March 1952, ‘Pondo Taisaku wo megutte’ [On the measures against the sterling accumulation], no.59, pp.5-11.

Toyama, Fusakazu, 1955, ‘Saikin no Goshu no Insho’ [Recent impression on Australia], *Yushutsu Menshifu Geppo*, vol.5, no.11, November, pp.18-21.

Toyoshima, Kyushichi , 1951, ‘Pondo Chiikimuke Yushutu Seigenan ni Taisuru Hantai Chinjo no Ken’ [Petition opposing proposed export restrictions against the sterling area], *Yushutsu Menshifu Geppo*, vol.1, no.8, December, pp.29-30.


Tsuru, Shigeto, 1950, ‘Keizaigaku no Hitoriaruki wa Abunai: “Nihon Keizai no Kao” ni Yo sete’ [Excessive inclination to economic theory is dangerous: Critical comment of Professor Nakayama’s article], *Hyoron*, March, pp.13-23.

Tsuru, Shigeto, 1952, ‘Pondo Ruiseki to Nihon Keizai’ [The sterling accumulation and the Japanese economy], *Fainansu Daijesuto*, vol.6, no.5, May, pp.7-10.


Tsushosangyosho, 1955, *Tsusho Hakusho* [Trade White Papers].


Tsushosangyosho Shijo 1-ka [First Marketing Division], 1957, ‘Nichi-Ei Shiharai Kyotei oyobi Boeki Torikime ni tsuite’ [On the Anglo-Japanese Payments Agreement and the Trade Arrangement], *Tsusho Chosa Geppo*, no.70, April, p


292

Tshushosangyosho Tsusho Sangyo Seisakushi Hensan Iinkai, 1990a, *Tsusho Sangyo Seisakushi, Dai-4-kan: Dai-1-ki, Sengo Fukkoki(3)* [Volume 4: First period for postwar restoration, no.3], Tsusho Sangyo Chosakai.


Udo, Toru, 1957a, ‘Goshu yori Kaerite’ [On my return from Australia], *Gaikoku Kawase*, no.169, 1 August, pp.6-9.

Ueno, Tadanori, 1949, ‘Nihon Shohin no Yushutsu Shijo toshiteno Ajia’ [Asia as Japan’s export market], *Jitsugyo no Nihon*, vol.52, no.10, 15 May, pp.44-47.


Akio Watanabe and Seigen Miyazato, eds., *Sanfuranshisuko Kowa* [San Francisco peace settlement], Tokyo Daigaku Shuppankai, 1986


Watanabe, Akio, 1992, *Ajia Taiheiyo no Kokusai Kankei to Nihon* [Japan and the Asia Pacific region], Tokyo Daigaku Shuppankai.


Yamanaka, Shun’ichi, 1955b, ‘MSA Dai 550-jo ni Motozuku Beikoku Yojo Nosanbutsu no Kaitsuke ni tsuite’ [Purchases of the US surplus agricultural commodities through the MSA Article 550], *Shokuryo Kanri Geppo*, vol.6, no.4, April, pp.24-26.


Yokoyama, Yasuo, 1953, ‘Gaika Yosan no Kaiko to Tembo’ [Retrospect and prospect of the foreign currency budget], Gaikoku Kawase, no.63, 1 January, pp.12-16.


Yunyu Shokuryo Kyogikai Somubu [Administrative Section], 1957, ‘Dai 2-kai Komugi Kenkyukai: Go-mugi Mondai wo Chushin toshite’ [The second workshop on wheat: Australian wheat], Yunyu Shokuryo Kyogikaiho, no.105, June, pp.2-16.

NEWSPAPERS

Australian Financial Review
Asahi Shimbun
Mainichi Shimbun
Nihon Keizai Shimbun
Sankei Shimbun
Tokyo Shimbun
Yomiuri Shimbun

INTERVIEWS

The affiliations appearing after the names of the interviewees are those they had when in charge of trade negotiations with Australia.
Kajiki, Toshimichi (MOF), 31 August 1983.
Hibino, Kenji (MAF), 13 September 1983.
Kawanami, Masayoshi (MFA), 30 August 1983.
Suzuki, Tadakatsu (MFA), 22 August 1983.
Suzuki, Tateo (MFA), 10 August 1983.
Takashima, Setsuo (MITI), 19 August 1983.
Trumizu, Kimimasa (MOF), 8 September 1983.
Udo, Toru (MITI), 30 August 1983.
Ushiba, Nobuhiko (MFA), 11 August 1983.
Uyama, Atsushi (MFA), 11 August 1983.
Watanabe, Goro (MAF), 29 August 1983.
Yoshino, Bunroku (MFA), 9 August 1983.